

PLANNING AND DEVELOPMENT COLLABORATIVE INTERNATIONAL, INC

Pilot Local Government Partnership Program

REPORT

Stimulation of Local Development by Leveraging of Municipal Land Assets in Sandomierz

Prepared for
United States Agency for international Development

Prepared by
Barbara SAKOWSKA - KNAPP

PADCO
1025 Thomas Jefferson Street, NW
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Washington, DC 20007

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PROVIDES GOVERNMENTS AND SPONSORING AGENCIES WITH EXPERTS IN PLANNING, PROJECT MANAGEMENT,
FINANCE, ECONOMIC DEVELOPMENT, AND POLICY RESEARCH. FORMATION SERVICES, AND TRAINING.

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Barbara Sakowska-Knapp

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Preface

Municipal land and real estate assets have something of a “dual personality” at present in Poland. There are great opportunities to use these resources to effect local economic development goals, while on the other hand, there are numerous complex constraints which must be recognized. With municipal housing, for example, there comes a long history of deferred maintenance, and rents which are insufficient to restore the resulting deterioration. Land in its turn, comes “encumbered” with its own history of ownership, and its future development is likely to be constrained by master plans and local plans which don’t necessarily reflect current economic or market principles. Thus gminas are limited in their abilities to utilize these valuable assets to their full potential.

This Report addresses some of the opportunities and constraints connected with the use of municipal land to promote local economic development. From a practical standpoint, the Report is intended as a starting point for development and implementation of a detailed strategy of municipal land management. Some of the key issues in Sandomierz involve:

- ? changing ownership or tenure of municipal land;
- ? the city’s obligation to purchase land (typically road easements) as new development occurs; and
- ? the question whether to expand the city by moving the administrative boundary. At the request of local counterparts the Report also touches briefly on how to promote available land to attract new investment.

The Report is a product of two USAID programs: the “Housing Finance Technical Assistance and Municipal Advisory Program” and the “Pilot Local Government Partnership Program.” It follows a previous “Report of Mission to Assess Feasibility of Providing the City of Sandomierz, Poland With Technical Assistance on Strategic Land Management,” written in 1996, which found Sandomierz to be more active in privatizing land than most Polish towns. The “feasibility” report concluded that the city needs a land privatization and management strategy to foster the achievement of strategic objectives related to economic development. Amongst other recommendations, the report called for evaluation of land and property resources held by the City, and preparation of an urban land management strategy. The present Report reviews the principal land management activities of the city from 1990 to 1997, and identifies several of the key land management issues. It then looks forward to address how current trends and land management practices might affect the physical and economic development of Sandomierz.

This Report and recommendations are based on the specific situation of Sandomierz, including its history of land ownership and land management practices, and reflecting also today’s political and social concerns. Nevertheless, it is hoped that the ongoing work in Sandomierz will also be of interest to municipal officials in other towns, particularly those similar to Sandomierz in size, land ownership and structure of the local economy. Certainly, many other Polish towns face similar issues to those confronted in Sandomierz, and most gminas still lack practical experience as managers of land assets in the market economy.

Annexed to this Report are several case studies and working papers which illustrate different approaches to municipal land management. Comparative international experience such as that presented in the annexes can provide some useful insights, but because Poland has its own, unique historic and legal characteristics, the practices which prove to be effective will likely be uniquely Polish in character.

Relationship of this Report to the USAID Pilot LGPP Modules

Stimulating local economic development relates to most of Pilot LGPP modules and particularly to Land Management Module and Local Economic Development Module.

The example of Sandomierz highlights the need for improvement of links between the modules.

Due to the focus on reports analyzing the stimulation of city development through utilization of land and property potential, this Report deals with issues which were not included in the module, as drafted during workshops of January 1997.

In addition to the principles of long-term management of land currently owned by the city, this Study contains recommendations for effective use of land to be acquired by Sandomierz in the future.

Executive Summary

The main task of economic development — a more extensive use of local physical and human resources — is determined by several elements, including property management. During the past fifty years land and buildings were not regarded as market goods, which led to enormous mismanagement of real estate in Poland. Since 1992, local governments have been empowered to make decisions on property management. They are now owners of recently communalized stock, the market value of which has been changing rapidly over the last few years. Local authorities can also purchase new land, at affordable price, if such land is regarded necessary for the city's expansion over the next 4-5 years.

The lack of experiences and resources to carry out this work in medium-sized and small cities and towns results in a situation when City Councils do not practice strategic management, and do not treat municipal assets — including real estate — according to principles of a market economy. The potential for development of the city that can be generated by its land and buildings in conjunction with the right of the local authority to pass local laws, such as the local physical plan, has not been fully used so far. This paper attempts to explain some of the reasons for this situation.

From amongst numerous issues connecting land and real estate to local economic development we focus on those which can foster economic development in Sandomierz most effectively.

The need to make financial analyses prior to the survey on the consolidation of land, especially that allocated for single-family housing development, is in our opinion one of the most urgent problems faced by local authorities in medium-sized cities in Poland. The significance of such analyses stems from the high share of municipal outlays for the preparation of land for new housing projects. The cost of land for new housing projects alone amounted to 16.1 percent of the municipal budget of Sandomierz in 1997.

International research and experience demonstrate that it is possible to considerably cut costs of preparing land for housing — costs incurred by the City and the end user. Most of the Polish cities of similar land ownership structure need studies which would present better methods of land management, leading to practical actions such as reducing public and private costs of land development.

The City has the possibility to stimulate development by exercising its regulatory and fiscal powers, especially:

- ? to manage real estate (owned by the city or which the city will acquire in the future);
- ? by the master plan (commissioned and approved by the local authority); and
- ? through taxes, the bulk of which, in case of real estate, flows into the city budget.

Chapter I presents the background of this paper and summarizes the previous Report of July 1996, written under the guidance of David E. Dowall. It presents the adopted, three-month work schedule and the results of the work to date.

The report presents a review of the binding legislation concerning property management, emphasizing the variety of tools which can be used by the local authority. The goal is not only the increased financial revenue, but also gathering of new elements conducive to the development of the city, which at the initial stage may produce results that are difficult to measure but which may be very important to the further development of the city. Since 1990, cities have been empowered to manage the land, and to implement long-term policies aimed at enhancing municipal assets through planning and the use of real estate market tools. However, the use of these tools in practice remains inadequate, and small and medium-sized cities in Poland do not fully benefit from their rights. We have presented some of such examples in the part of the report that follows.

We suggest that local authorities need a vision of where the city is going, based on in-depth research of the economy of the region. That vision can serve as basis for building development strategies for individual sectors.

The chapter on land management in Sandomierz presents changes in municipal land ownership in the years 1992-1997 (July 31). Diagrams are provided to show the location of properties under discussion, representing different stages of the privatization process. The directions of the ongoing processes and conclusions that follow are convergent with trends present in other Polish cities of similar size.

Privatization of properties located in city centers, and the purchase or acquisition of other properties located in the suburban ring is an inevitable process. Market analyses and the ability to determine the right moment to purchase land (or to find investors to join the city's effort), including the planning and extending of the infrastructure to selected areas in the city, can be a very strong factor fostering local economic development.

It is a known fact today that large areas of municipal land will be devoted to new road easements. The report points out that no research has been carried out so far (and none is known to be ongoing at present) to assess the economic impact of these projects for the city. For example, what proportion of the expenditures to be borne by the city due to its legal obligation to purchase land as a result of approved plans could be recovered in the future through fees and taxes?

The case of Sandomierz is typical of Poland and is not limited exclusively to small and medium-sized cities. As mentioned above, cities do not make full use of their powers which is manifested, for example, by the fact that they do not increase municipal revenues, as might be possible if economic and planning studies were conducted prior to the approval of local master plans.

The method of developing a municipal land management strategy provides for the separation and classification of individual areas in the city. The management of municipal land and property should be adapted to the unique character of each zone. This strategy allows the city to select and to focus the course of action, which is important in small towns given that local professional resources and municipal budgets are usually very limited.

Classification of municipal land into separate zones can prove helpful to many local governments, irrespective of their size, wherever specific characteristics or issues emerge in sections of the municipality or the city. The report presented here has used information based on our long-term

knowledge of the city and our close collaboration with the City Hall officers, supplemented by excerpts from documents such as original reports, minutes of the City Council meetings, etc. However, this knowledge is still insufficient for relevant authorities to run a comprehensive and market-oriented land management policy. Designation of zones should be based upon a comprehensive catalogue of data from various fields (and much of it is subject to constant change). To accomplish this task, the City needs a team of professionals equipped with appropriate techniques.

The chapter on Promotion of the City (included at the City's request), in a large part repeats recommendations concerning the organizational and technical improvements in the work of the land management team. In relation to the promotion of the city, we point out the lack of information on the economic structure of the city and its surrounding farming area serviced by the city. This applies to both standard data regarding each center endeavoring to attract a new and good investor, as well as to information specific for an individual city. In Sandomierz, the priority sectors are fruit-production, horticulture and tourism. The final chapter extends the scope of relevant information and makes it available to those potentially interested in this topic. The report identifies problems and sets directions for action in the field of land management and related issues, which can stimulate the city's economy. Many of these suggestions require in-depth, professional examination, if the city has an opportunity to apply for assistance to carry out the examination under the next stages of the Local Government Partnership Program.

A. Project Outlines

1 Methodology

The report is based on the analysis of municipal land assets since 1990. The authors also have examined the decisions made after 1992, e.g. following the transfer of land management responsibilities to local authorities.

The main objective of this report is to indicate key factors which influence the economic development of the city. The emphasis therefore was put on selecting those elements of current and future land management in Sandomierz that offer the highest development potential.

The analysis also covered decisions and resolutions of the City's Board of Management and Council concerning land management. Interviews with heads of departments additionally clarified the reasons behind specific decisions. First of all historical financial reports and budget analysis were examined and this information together with statistical data enabled us to outline the impact of land management decisions on financial and economic status of Sandomierz.

The results of these activities proved that the decisions which take into account future market demand and mechanisms of capital costs recovery are the most important for the stimulation of economic development.

Land management issues included in the report were selected according to the following criteria:

- ? importance from the point of view of prospective investors;
- ? identifying land management-related expenditures which are not subject to any analysis nor to any activities aimed at cost recovery through future taxes and fees (e.g. the cost of land bought by the City to build roads in new housing districts accounts for 17 percent of total Sandomierz budget);
- ? identifying various land management, financial and social problem-solving opportunities which, if resolved today, will generate substantial benefits in the future;
- ? identifying any organizational activities which would provide new development opportunities in the future.

This report is not aimed at finding solutions to all land management problems. We have focused our efforts on identifying and discussing those issues which may contribute to the future economic development.

Solving the identified problems will require further works in specified areas. In our estimation, the project: "Relationships Between Spatial Layout of Planned Single-family Development Schemes and Effectiveness of Infrastructure Expenditure" is recommended as the most urgent and necessary for both Sandomierz and other medium-sized Polish towns. The report discusses further details of this issue and proves its significance for the development of towns similar to Sandomierz.

2 Results of the July 1996 Report

The 1996 report dealt with opportunities for strategic management of privatized and municipal land. It was based on data available in Sandomierz — the city which initiated the process of privatization of municipal land assets. The above mentioned project is to be a part of a new Pilot Local Government Partnership Program (USAID) which will be implemented by a USAID contractor and the local authority. The project aims at improving the land privatization process in Sandomierz as an important economic development tool. The Memorandum of July 1996 describes economic and physical situation of Sandomierz and neighboring areas, including its economic structure. Furthermore, it contains a description of privatization process from 1992 to July 1996 and highlights the importance of a strategic approach to the privatization of municipal land.

2.1 Geographic and Economic Situation of Sandomierz

Sandomierz is a medium sized town (population of 27,052 in 1996) located on the Vistula River bank, 185 kilometers south of Warsaw and 163 kilometers north of Krakow (see Fig. 1).

The most important sectors of the local economy are: tourism, agriculture, industry and services. According to the report, the above areas, agriculture in particular, will play an important role in the



future development of the city.

2.1.1 Agriculture

Sandomierz is an important agricultural center. At the end of 1994, there were 2,289 people employed in this sector. According to the report, the gross farming product increased by 29.4 percent between 19976 and 1994. New houses and facilities have been built. The sales of artificial fertilizers and household equipment also tended to increase. Dossche, a Polish-Belgian company, established a food processing plant and a warehouse to benefit from the large supply of cereals in the region. A fruit market located in the vicinity of the Old Town continued to attract buyers from other cities, including Warsaw and Krakow, and some 200-300 trucks arrive in Sandomierz daily to transport local farm produce to other regions. The market is an important development factor in the region as a source of fresh fruit and vegetables.

2.1.2 Tourism

Sandomierz is an important tourist center of Southern Poland with historical records dating back to the 13th century. There are many historic buildings such as a basilica built in 1360–1380 and a well preserved Old Town. According to the authors of the report, more than 60,000 tourists visit Sandomierz annually despite the lack of infrastructure such as hotels and restaurants.

2.1.3 Industry

Industry is the third most important sector of the local economy. Sandomierz is first of all a glass manufacturing center. Recently, the local glassworks (largest in the region), was privatized and sold to a British company, Pilkington. According to the report, the future development in Sandomierz is likely to be based on small and medium-sized enterprises rather than large industrial plants. Additionally, the authors noted that small manufacturing shops working for the glassworks and the farming sector seem to have most prospects for development.

2.1.4 Administration

Sandomierz is an important administrative center in the region. In the event the planned reform of local governments is introduced, the town may play an even greater role in the future as the administrative center of a county.

2.2 Privatization of Land

Sandomierz currently faces serious economic problems. In 1992, the local authority initiated the process of privatization of municipal property in order to raise money for infrastructure projects (e.g. rehabilitation of water supply and sewage networks). From 1992 to 1996, a total of 7.18 ha was sold (39 lots located in 27 areas) for development of warehouses, trade and services. Privatization revenues accounted for 7 percent of municipal budget. Currently, there are 89 lots designated for development. This report includes an assessment of the locations and the opportunities for development of these lots in the context of economic development of the city and region. Most of the lots have been classified as very good or good in terms of their location characteristics and opportunities for development.

The report highlighted the fact that the authorities of Sandomierz had developed an important skill helpful in land privatization, which is rare in small and medium-sized towns.

The privatization process in Sandomierz is sub-divided into seven phases:

- ? City administration identifies a lot to be privatized;
- ? Analysis of its legal status and preparation of formal proposal to the Council;
- ? Council authorizes the Board of Management to proceed with further privatization steps;
- ? Necessary documentation, including property valuation is prepared;
- ? City administration places an invitation to tender in mass media six weeks before the bid opening;
- ? Bid opening and evaluation

- ? Selection of the best bid (successful bidder must guarantee, among other things, that in the case of a historic building, its rehabilitation will start within a specified time limit).

2.3 Privatization and Management Strategy

The authors of the 1996 report noted that the development of privatization strategy would help devise consistent and comprehensive activities aimed at enhancing the attractiveness and market value of specified properties. It was agreed that the privatization process in Sandomierz is technically correct, but it is driven by current financial needs of the city and lacks a strategic approach. Privatization should not be treated only as a solution to the short term financial needs of the City. Towns and cities should learn how to use their resources in a strategic way for current and future economic development. It is therefore crucial to develop and implement a land management and privatization strategy aimed at leveraging local economic development.

The Strategic Land Management Project may help to achieve this objective. In Sandomierz, the focal points of the economy are tourism, services for the farming sector and light industry. The assessment of city's development potential should therefore include those areas.

The Land Management Project should be divided into five stages:

- ? Assessment of the Sandomierz economy and identification of development opportunities;
- ? Valuation of municipal land resources;
- ? Development of a municipal land management strategy;
- ? Implementation of the strategy; and
- ? Documenting the best model of land and property privatization

Evaluation of the municipality's land resources is expected to involve development of an inventory and analysis of land parcels in terms of location, size, configuration, the best use and an assessment of sales prices. The analysis should also help to evaluate current privatization schemes and identify areas for improvement.

Based on this analysis and the Sandomierz economic development objectives, a Land Management Strategy should be developed and next implemented. USAID would assist the City and facilitate this process aimed at attracting external investors. The authors of the report share the view that the process of strategic land management should then be disseminated in other Polish towns.

3 Previous Results

Following dissemination of the previous Report in July 1996 (which recommended to start work on a land management strategy), the author of the current Report has assisted the City to promote its municipal land assets. This resulted in negotiations with a foreign hotel investor, which in turn highlighted the need of the local authorities to become more efficient in making and pursuing contacts, and in conducting negotiations with investors.

During the preparation of this report, we have proposed an amendment of the existing City Plan intended to improve the management of municipal land stock and property.

Another significant result is the improvement of market-oriented land management skills among the staff of Sandomierz City Hall. Graphs and matrices of land owned by the city or privatized help the local authorities make sound management decisions.

4 Comments on the Scope of Work (July 1997)

The report of July 1996 anticipated a nine-month work schedule. However, a large part of the work could not be completed due to the shortening of that period to less than three months by the time the present phase of work was approved. Unfortunately, time constraints prevented even a rough assessment of municipal property values. The current work started in July 1997, therefore the data was collected during the summer holiday season. In a medium-sized town that is also a farming center, this period is particularly inconvenient, and the possibilities to gather detailed data were limited and we had to focus on key information only.

Furthermore, the ownership structure of the most attractive areas such as the Old Town and its neighborhood has changed significantly. From July 1996 to July 1997, due to the privatization of a large proportion of municipal property in this area, and property restitution to former owners, the town currently owns fewer land properties that might be attractive to potential investors.

In this situation, recommendations for leveraging land resources for economic development have been focussed not only on properties currently owned by the town, but also on land which is to be acquired by the city in the future. This will also include land to be purchased for new roads under city's statutory obligations arising from the approval (in October 1997) of zoning plans for new single-family development schemes. Additionally, we have analyzed and prepared recommendations concerning additional areas which, if acquired and controlled by the city, could potentially stimulate economic growth.

B. Legal Grounds for Land Management

The following existing legislative acts, adjusted to a democratic and market-oriented system, enable proper implementation of land management in the city:

- ? Amendments to the Polish Constitution
- ? Self-government Act
- ? Physical Planning Act
- ? Land Management and Expropriation Act
- ? Farm and Timberland Conservation Act
- ? Natural and Cultural Environment Protection and Development Act
- ? Local Authority Finance Act

Land management tasks and powers of local government are determined by the “Competence Act” of May 17, 1990 which allocates tasks and powers under specific Acts to local authorities and State administration bodies. Following the 1989 amendments of legislation intended to transform land management to a market-oriented environment, the scope of responsibilities vested in local governments includes:

- ? sale/purchase of real estate;
- ? protection of local authority’s (city’s) interests as owner of land transferred to individuals or corporate entities under perpetual usufruct;
- ? development and regular up-dates of the balance-sheet of municipal assets (very approximate though);
- ? sale of housing and commercial units located in city-owned buildings, including grants of perpetual usufruct right to a fraction of land, as necessary for use of the property;
- ? transfer of ownership title to garages and granting perpetual usufruct title to land;
- ? tangible right regulations — real estate restitution to owners subject to expropriation for projects which have not been implemented;
- ? development of municipal property management policy scenarios;
- ? participation in development and up-dates of local investment opportunity inventory.

In accordance with the Self-government Act, local authorities enjoy the following real estate management rights:

- ? to adopt resolutions on local authority’s property beyond the scope of ordinary management and concerning sale or encumbrance of real estate, the lease of property for a period longer than three years, unless specific Acts state otherwise;
- ? to adopt resolutions on tax and fees, to the extent defined by separate regulations.

The opportunities to use municipal real estate are not limited to building sites; it is also possible to use agricultural real estate for agricultural or similar businesses. This also applies to State-owned

land, in accordance with Act on Management of State Treasury's Agricultural Real Estate and Amendment to Selected Acts.

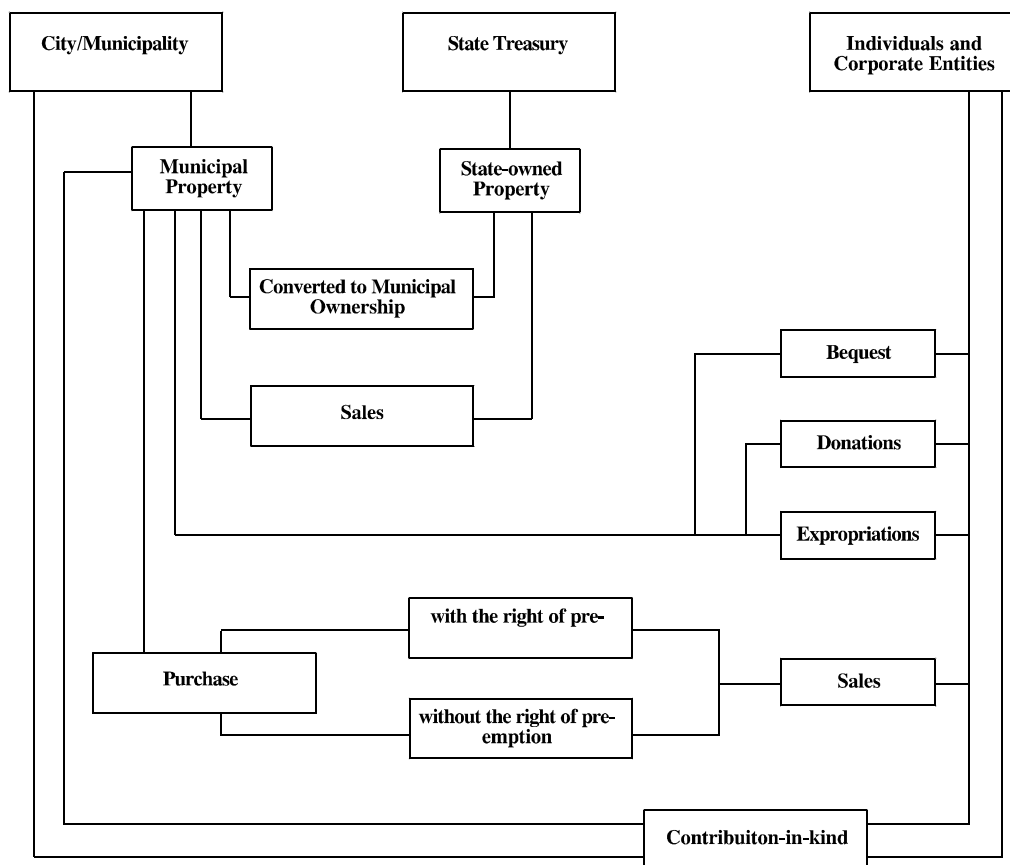
The Land Management and Expropriation Law of 1985, as amended by proclamation issued by the Minister of Physical Planning and Construction, is the key legislative act which regulates particular aspects of land management. The Law applies to management of developed land and land to be developed under local zoning schemes. The Law addresses mainly municipal and State-owned land (real estate), while other real estate is subject to its provisions to a limited extent, as strictly defined by the Law.

According to the Land Management and Expropriation Law:

- ? municipal land is subject to management by Local Authorities, while State-owned land is managed by State administration agencies;
- ? the municipality is allowed to sell or grant perpetual usufruct right to, lease or rent municipal and State-owned land to individuals or corporate entities;
- ? the local authority enjoys the right of first refusal to purchase real estate previously purchased from State or local authority, provided that the real estate has remained vacant;
- ? municipal and State-owned land can be exchanged for land owned by individuals or corporate entities;
- ? local authorities may establish a reserve of land for development of cities and villages, and in particular for organized multi-family housing development projects;
- ? local authorities may allocate land to single-family development projects (consisting of ten or more houses).

The new Land Management and Expropriation Law, adopted by Parliament and signed by the President in September 1997, will become effective on January 1, 1998. Sound land management is a pre-condition for maintaining appropriate spatial order in the local authority's jurisdiction. Local zoning schemes determine key land use/zoning patterns and the approach to land development. Local governments may control land development patterns by establishing land reserves (see Fig. 2) and undertaking projects intended to make the land available to investors.

Fig. 2 Methods of Increasing the Volume of Municipal Land Assets
(After a study by Zygmunt Ziobrowski and Grahman Tomlinson)



On the other hand, existing regulations have not vested in local authorities any powers to enforce the land use/development provisions of local zoning schemes, if the land is owned by individuals or corporate entities other than local authority or State Treasury.

Only in the case of land sold by local authority or State Treasury, or if perpetual usufruct is granted to an investor, may local authorities request the investor to meet property development/design conditions, as well as project completion time (if explicitly specified in notarial deed).

The separation of local authority power from the powers of central government is of key importance to land management. Central government administration agencies at the local level (rejon) are responsible for:

- ? all issues subject to the Law of July 7, 1994
- ? land assembly/exchange
- ? maintenance of land/building registry, soil classification and establishing parcel boundaries.

Local authorities also may perform central government administration tasks by agreement with competent central government agencies. These tasks are financed from funds transferred by central government administration agencies.

Local authorities have all the necessary powers to issue decisions on land development conditions concerning all types of building projects. Moreover, they enjoy full land management powers. Related activities should follow the provisions of local zoning schemes and Local Land Management Policy, including Municipal Land Management Policy, as approved by the City Council.

In accordance with existing regulations, the City should possess an inventory of its own land and real estate, should collect and store information on municipal land prices and keep an up-dated land map registry. It is also important to prepare a municipal asset management policy and the city development strategy.

To identify the legal status of property and in line with the Physical Planning Act of July 7, 1994, to establish zoning and land management principles should be the priority of local physical planning process, which is one of the municipality's own tasks.

In the new environment of restoring actual real estate markets, protecting ownership rights and ensuring an open and transparent regulatory and approval process for all real estate market players, land management issues become an important element of local zoning schemes. Any increase or decrease in the value of real estate arising from provisions of a new local planning/zoning scheme should be addressed by property tax/fee system (Fig. 3).

Effective use of this opportunity depends on management skills and a pro-active approach by local authorities. The survey of the existing legislative framework clearly indicates that the City has statutory obligations and rights which include tools to leverage local economic development through proper planning and good land management.

Figure 3

C. The Management of Municipal Property in Sandomierz From 1990 to 1997

Municipal land ownership has gone through three distinct stages:

- 1990 - 1992: preparation of the process for communalization (transfer of state-owned properties to municipalities);
- 1992 - 1996: growth in the size of municipal property inventories through progressive communalization and transfer of state-owned property to municipalities, despite concurrent privatization;
- 1996 - 1997: total amount of land owned by the City reaches a stable level. The amount of municipal land and real estate tends to decrease in areas which are most attractive in terms of City's capital investment priorities.

The number of municipal properties in prime tourism and agriculture service locations diminished in 1996 and 1997, due to the sale or restitution of formerly expropriated land or buildings to their previous owners (Fig. 4). Moreover, the City Council decided to move the City Hall to a historic building near Market Square (plot no 11). However, the amount of property available for capital investment in the whole City remains unchanged from the 1996 level as a result of new real estate transferred to the City on a free-of-charge basis. The total area of municipal land (including all land categories) remained at a fairly stable level over the last four years:

- ? 240.7 ha in 1993
- ? 294.8 ha in 1995
- ? 298.8 ha in 1996

The majority of this land is exempted from public trade (parks, roads, open space, historic monument protection areas, etc.). The City owns about 10 percent of the total area of Sandomierz. It should be noted, however, that a large proportion of land owned by the City is unsuitable for development (ravines, steep slopes, flood land within perimeter of the Vistula River embankment owned by State Treasury). Between 1993 and 1996, the length of municipal roads remained stable, and totaled 59 km.

In 1996, municipal assets were valued at PLN 44,606,400 which was more than in 1995. (Each year, the City is obligated to present aggregate figures to the Regional Audit Office; this has been done since 1993. The annual figures are not very accurate, although the City tries to make the approximation as accurate as possible). This increase in total asset value was due to progressive communalization and new infrastructure facilities completed by the City.

Figure 4

1 Privatization of Property from 1992 to 1997

The Report of July 1996 provides a general account of the privatization process during the years 1992–1996. Considering the proposed scope of the Strategy, the report should be supplemented with a functional description of real estate subject to privatization. In terms of the number of privatized parcels, the rate of privatization was fairly stable throughout that period (from 1992 to the first half of 1997 inclusive), i.e. four to seven properties a year (Table 1). However, the appropriation and use of land was subject to change. In the years 1993–1995 residential-zoned parcels prevailed, while in 1996, and especially in 1997, tourism-oriented real estate predominates (a historical manor, hotels, inn). This indicates that tourism, a priority area for City development, has become increasingly important.

The number of privatized properties increased from 39 parcels located in 27 locations to 42 lots located in 30 locations (Fig. 5). Despite the sale and restitution of real estate to former owners, the number of parcels and buildings owned by the City between July 1996 and July 1997 remained almost unchanged, due to a take-over of new land by the City.

On the other hand, the stock of real estate located in the Old Town area and its immediate neighborhood diminished significantly, as the most of the privatized parcels are located there.

The process of real estate privatization continued throughout 1997 with the focus on unused buildings that could be utilized for the development of tourism and services. Table 1 and Fig. 5 illustrate the location of municipal real estate privatized in Sandomierz before July 31, 1997. Between 1992 and July 1997, privatization of municipal real estate generated total revenues of PLN 1,988,162

Even greater revenues are expected due to the much greater value of real estate to be privatized before the end of 1997, following a tender for the sale of several properties located in the vicinity of the commodity exchange (plot no 20, see Fig. 4 and Fig. 6), to be concluded in September 1997.

Figure 6 illustrates the location of real estate privatized between July 1996 and July 1997.

Figure 7 shows real estate privatized in the Old Town area. These are three developed parcels of land (no. 14, 15 and 5) located in the very attractive Old Town area. Their privatization is consistent with City's development priorities, i.e. the development of tourism and services.

Another three parcels were restored to their former owners. Despite a decrease in the amount of privatized real estate (compared with the previous years), revenues in the first half of 1997 were almost 150 percent of total privatization revenues (not adjusted for inflation) generated in all preceding years (PLN 1,181,000 in the first half of 1997 compared to PLN 807,162 in the previous four years).

Table 1

MASTER : Developer:								Date:		
LAND USE CHARACTERISTICS										
Site area in hectare		3	Non-developable area in m2			Developable area in m2		30000		
Cultural facilities	Net area in m2	Sales price/m2	Commerc facilities	Net area in m2	Building Cost/m2	Sales price/m2	Net residential area in m2 from program or measured from plans			
Schools			Retail sale	2500	120		Non-marketable land %		m2	
Health			Bulk sales			Circulation areas	20.00	6000		
Churches			Crafts			Parking areas		0		
Admin.			Services			Green spaces		0		
Sport			Other			Public spaces	3.00	900		
Total	0	0	Total	2500	0	300	Total	23.00	6900	
M2 Non-resid.land		3247	M2 total residential land			26753	M2 net residential land		20600	
LAND AND INFRASTRUCTURE COST:					Land price	Site prep.	On-site infrastr.	Off-site infrastr.	Other costs	
Basic development costs					8.00	3	30			
Contingencies and unforeseens (%)					5		10			
Fees and supervision (%)							5			
Financing costs (%)										
Complete item cost/gross m2 of site					8.40	3.00	34.65	0.00	0.00	
Total developed land cost/gross m2 of site					46.05	Developed land cost/net m2 of site		59.81		
PLOT SIZES AND HOUSING UNIT CONSTRUCTION										
Housing unit type	Total	Type #1	Type #2	Type #3	Type #4	Type #5	Type#6	Type#7	Type#8	
% of total plots/type	100.00	50.00	48.00						2.00	
Plot size in m2		300.00	200.00						1500.00	
Nb.of plots/type	75	37	36	0	0	0	0	0	1	
Nb.housing units/plot		1	1						6	
Nb.units/type	82	37	36	0	0	0	0	0	9	
Nb. Units/ha.	31	Household Siz			3.5	Density / ha.		107	Pop.	287
M2 builded area		80.00	70.00							
Construction cost/m2		800.00	700.00							
Contingencies (%)		10	10							
Financing costs (%)										
Housing Unit Cost		70400	53900	0	0	0	0	0	0	
% developed land cost/unit		100	70						17	
Developed land cost/unit		17942	8373	0	0	0	0	0	14951	
Land cost/m2 of plot		60	42	0	0	0	0	0	10	
Total cost/unit		88342	62273	0	0	0	0	0	14951	
Sales price or % profit									25	
Calculated % profit		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Sales price/unit		88342	62273	0	0	0	0	0	18689	
PROJECT COSTS		X1000	%	REVENUES		X1000	%	RATE OF RETURN		
Land	252	4.24		Housing units	5695	95.00	Year	% Exp.	% Rev.	
Infrastructure	1130	19.02		Facilities	300	5.00	1	40	10	
Construction	4558	76.74		Total project	5995	100.00	2	25	25	
Housing	4558						3	20	30	
Facilities	0						4	15	35	
Total project	5940	100.00		Developer profit	55	0.93	% IRR		1.17	
AFFORDABILITY		Type #1	Type#2	Type#3	Type#4	Type#5	Type#6	Type#7	Type#8	
Downpayment		40	40						40	
Yearly interest rate		28	28						28	
Repayment period		8	8						8	
Monthly payment		1388	979	0	0	0	0	0	294	
Ratio to monthly income		40	40						40	
Required monthly income		3471	2447	0	0	0	0	0	734	

Figure 5

Figure 6

Figure 7

2 Restitution of Plots

The stock of attractively-located municipal real estate has tended to decrease since the enacting of the regulations passed in 1985 (for more details see the Box below). The trend has had two key effects on the stimulation of economic growth. On the one hand, restitution of separate plots may contribute to the development of property market the help to intensify land use, also for tourism-related projects, which is beneficial to the City's overall economy. On the other hand, however, restitution of large blocks of land may impede the process of privatization in the future. The restitution of the plot which cuts a narrow stretch of municipal land into two sections(Fig. 6 and Area 6* on Fig. 7) is a good example of the latter case. Although it is an exceptional case, it emphasizes a more general problem which should be addressed by local authorities. The restitution of a narrow stretch of land (6*) adversely affected the value of land which is still to be privatized. Considering the unique locational merits of that area (at the foot of the Old Town slope), this reduced the stock of municipal land parcels which are most valuable in terms of City's priority economic function, i.e. tourism. This highlights the importance of maintaining the size of parcels suitable for capital investment. The City sought to keep this land undivided but its efforts were unsuccessful.

In the event of property restitution, the City may prevent similar undesirable situations by negotiating with owners and transferring to them some alternative land. This approach is highly recommended in order to prevent depreciation of particularly attractive urban areas. City officials have already shown their ability to reach amicable settlements, as proven by results of negotiations on parcel no 4 (see Fig. 6). Though in this particular case it was relatively easy to obtain the owners' agreement due to the planned widening of a road, envisaged in the local Master Plan, however, amiable action contributed significantly to the shortening of expropriation procedures and to reaching a settlement that was satisfactory to both sides. This approach is highly recommended in cases of claims for the restitution of real estate, which could be useful in implementing local priorities.

The approach whereby a legally grounded claim for the restitution of real estate need not necessarily mean that the owner receives the same parcel or a parcel of the same shape, may significantly enhance prospects for local development in the future. Amicable settlements between the City and owner may offer the flexibility that will provide benefits to both parties.

CASE STUDY: Legal Grounds for Restitution of Real Estate

Land located at the foot of the Old Town Hill was expropriated in 1977 (see Fig. 7, part of plot no 6*), in order to develop the west slope in accordance with decision on approval of a road system up-grading plan for Sandomierz Old Town, including transportation junctions and hillside reinforcement. These plans have not been implemented.

Following the enactment of the Law on Land Management and Expropriation of April 29, 1985, the owners of plot no. 1247/2 filed a complaint against the decision on expropriation and requested property restitution. The District Office in Sandomierz decided that the property expropriated for the hillside reinforcement and road system up-grading projects should be reverted to former owners. The Mayor of Sandomierz appealed that decision. On grounds of Art. 138.1.1 of Administrative Law and Art. 69 of the Law on Land Management and Expropriation, the Governor of Tarnobrzeg Province rejected the appeal and sustained the decision.

Sandomierz Local Authority appealed against the decision of Tarnobrzeg Governor citing the progress of works conducted by the City in 1986, in particular construction of water supply line, storm sewer, and cleaning-up of the area, as major reasons for its complaint. The works were subject to postponement rather than abandonment. Furthermore, the City argued that existing local physical planning scheme for Sandomierz provides for establishing the route of Podwale Street (where the property was located) as a historic tract whose character would be preserved in the future.

The National Administrative Court rejected the complaint in October 1996. The decision was based on Court's "prevailing judicial cognizance", whereby the purpose of expropriation is deemed absolutely necessary only on grounds of validity of project location permit, which should specify expropriation details. And conversely, in the absence of such permit or on postponement of project implementation process for unspecified time, expropriation is deemed unnecessary in terms of purpose of property expropriation. The Court justified its decision by the fact that the decision on approval of that specific local physical planning scheme (dated September 3, 1974) lost its validity as the City failed to commence the project within three years from the date of the approval of the plan. In accordance with provisions of the Law on Land Management and Expropriation, a property is subject to restitution, if it is judged unnecessary in terms of purpose specified in expropriation decision. Local authority's arguments that the purpose of expropriation is to be implemented in the future cannot serve as grounds for refusing the restitution of the claimed property.

On the grounds of this verdict and pursuant to Council of Ministers' Ordinance on principles and procedures applicable to settlements for the restitution of expropriated real estate, dated July 1991, the District Office in Sandomierz decided that heirs of the late property owner should reimburse Local Authorities for the amount paid to him/them on the expropriation of the property in 1977 (as adjusted for inflation).

In its justification, the National Administrative Court quoted authors of juridical publications and earlier ruling similar adjudication. This proves that both the claim and the award are not one-time events. In this particular case Sandomierz authorities failed to initiate any negotiations with the land owner on possible restitution of alternative property, either in a different place or of a different shape, that would not dissect the historical route of Podwale Street. Since similar claims are likely to occur in the case of other real estate in area marked 6* and 1* (see Fig. 6), it is recommended that

the City set aside a suitable land reserve of alternative parcels or properties. The inability to conduct any works in the area of expropriated parcels due to scarce funding should not prevent sale of that land to potential developers.

The strategy of property management in the Old Town and its neighborhood clearly indicates that retaining the stock of real estate assets for the future tourism development needs is one of the City's priorities. The City should focus on amicable settlement procedures, since restitution claims are legally grounded. Generally, this approach should be adopted by the City in order to achieve the goals of the strategy, whereby top priority should be given to preventing any investment constraints in areas currently owned by the City.

The process of property restitution started only recently and many more restitution claims similar to those described above can be expected, especially for land located near the most attractive areas. One of them is the vicinity of the Old Town where the City owns land which was expropriated for the needs of specific public services indicated in the local plan. Considering that large undivided plots may turn out to be more attractive to prospective investors, the City should try to keep the land in such a form which would prevent any loss in value due to impaired development conditions. City officials should take a broader outlook and respond to strategic goals for the development of the entire area and its neighborhood.

3 Real Estate Acquired in 1996 and 1997

During 1996 and 1997, the City acquired by agreement, without any additional burden to municipal budget, two other parcels (Figure 8):

- ? Plot 48 was confiscated for failure to meet financial obligations to the City;
- ? Plot 47 was transferred to the City by the State Treasury.

Both parcels, located outside the City center and near its administrative boundary, have been zoned as residential.

The process of privatization and the occurrence of real estate transactions in the City Center along with the acquisition of residential land in outlying districts will constitute a firm trend in real estate ownership changes in Sandomierz.

Reasons for and consequences of this trend will be discussed in the following sections of this Study.

Figure 8

4 Real Estate Owned by the City as of July 31, 1997

Table 2 contains a list of real estate assets owned by the City in 1997, while their location is shown on Figures 6 and 8. These include areas suitable for sale or capital investment. Real estate held in perpetual usufruct by housing cooperatives, individuals and corporate entities, as well as land under management of municipal enterprises were excluded. A map in the scale of 1:5000 showing all types of ownership was prepared for the needs of the City and the project (not appended to this Report due to its large size of 1.2 m x 1.8 m).

Table 2 shows the compatibility of current use of the listed properties with the provisions of the master plan. Property values, as assessed for the needs of this Study, are not included here since the amounts assessed in 1996 differ significantly from actual market prices and are sometimes 80- 100 percent lower than tender quotations. According to appraisers' estimates, land prices increased on average by 15 to 20 percent compared with the 1996 level, e.g. below the inflation rate which amounted to 20 percent in that period. It should be noted, however, that in re-zoned areas (from agricultural to residential use) covered by new local physical planning schemes, land prices increased at a much higher rate. The location of a plot subject to more than 10-fold increase in price for 1 sq. m is shown on Figure 9. An appraisal of this property is presented in the Annex. The appraisal presents also prices of comparable properties located in the vicinity and their former value. In some cases the current value of these properties increased even more than the exemplary property.

The value of the City's assets was based on annual reports on the status of municipal property. The reports contain aggregate estimates and the information of municipal real estate is quoted with little accuracy. A more detailed appraisal of real estate owned by the City would require valuation up-dates and these are beyond financial capability of Sandomierz. The City's real estate data are not computerized, and the lack of a computer data base is a serious impediment to the day-to-day implementation of property management policy and development of adequate strategy.

5 Evaluation of Property Management in Sandomierz as of July 1997

As mentioned in the 1996 Report, the process of privatization is technically well-managed, but lacks a strategic goal. The process of parcel selection is conducted on an ad hoc basis to meet current financial needs of the City. The overview of the privatization process from July 1996 to July 1997 supports this opinion.

Sales or allocation of all vacant buildings in the Old Town area to the City's own needs were justified by the necessary rehabilitation of historic buildings. The City still owns all the vacant parcels of land as a prospective hub of tourism and service functions which are expected to prevail in the Old Town area.

Table 2 pg. 1

PROGRAMS 9 AND 10

FINANCIAL ANALYSIS OF THE RESIDENTIAL LAND PURCHASE AND INFRASTRUCTURE PROGRAMS

RESOURCES											
LOAN AMOUNT	Term in Years	Interest Rate	Amount X 1000	% Loan Disbursed by Year				PLN Amount by Year (X 1000)			
				1	2	3	4	1	2	3	4
Land Purchase	10	23	800	63	0	37	0	504	0	296	0
Infrastructure	10	23	2000	0	50	50	0	0	1000	1000	0
Total Loan			2800	18	36	46	0	504	1000	1296	0
LAND SALE Site	M2 Sold	Average PLN/m2	Tot. PLN X 1000	% Sales by Year				PLN Amount by Year (X 1000)			
				1	2	3	4	1	2	3	4
Ul.Wits Stwosza 33	1719	70	120	0	50	20	30	0	60	24	36
Ul. Michalowicas 19a	2625	125	328	50	50	0	0	164	164	0	0
Gm.Kat.Kamienica	84500	60	5070	0	20	35	45	0	1014	1775	2282
Gm.Kat.Wapienica	78000	80	6240	0	15	35	50	0	936	2184	3120
Sites and Services	19500	60	1170	0	25	25	50	0	293	293	585
Total Sales	186344	69	12928	1	19	33	47	164	2467	4275	6023
EXPENDITURES											
LAND PURCHASE Site	M2 Bought	Average PLN/m2	Tot. PLN X 1000	% Bought by Year				PLN Amount by Year (X 1000)			
				1	2	3	4	1	2	3	4
Gm.Kat.Kamienica	41000	20	820	25	30	45	0	205	246	369	0
Gm.Kat.Wapienica	60000	20	1200	0	25	75	0	0	300	900	0
Sites and Services	30000	10	300	80	20	0	0	240	60	0	0
Total Land Purchase	131000	18	2320	19	26	55	0	445	606	1269	0
INFRASTRUCTURE Site	M2 Serviced	Average PLN/m2	Tot. PLN X 1000	% Serviced by Year				PLN Amount by Year (X 1000)			
				1	2	3	4	1	2	3	4
Gm.Kat.Kamienica	130000	30	3900		25	25	50	0	975	975	1950
Gm.Kat.Wapienica	120000	30	3600		15	25	60	0	540	900	2160
Sites and Services	30000	50	1500		25	40	35	0	375	600	525
Total Infrastructure	280000	32	9000	0	21	28	52	0	1890	2475	4635
FINANCIAL FEASIBILITY											
CASH FLOW	M2 Sold/ Serviced	Average PLN/m2	Tot. PLN X 1000	% Totals by Year				PLN Amount by Year (X 1000)			
				1	2	3	4	1	2	3	4
Resources/Revenues	186344		15728	4	22	35	38	668	3467	5571	6023
Expenditures			11320	4	22	33	41	445	2496	3744	4635
Project Cash Flow			4408	5	22	41	31	223	971	1827	1388
Interest Repayment			860	12	34	43	10	107	296	368	90
Principal Repayment			2800	4	24	52	20	116	675	1459	550
Net Cash Flow			748	-52	-95	-74	100	-388	-713	-550	748
Cumulative Cash Flow								-388	-1102	-1651	-903
IRR Analysis								-445	-254	507	1352
	PROFITABILITY			RATES OF RETURN			MULTIPLIER EFFECTS				
	Profit X 1000	% Profit on Sales	% Profit on Equity	Discount Rate(%)	FIRR	IRR on Equity	M2 Const./M2 Land	Const. Cost/M2	Priv. Inv. X 1000	% Labor Cost	Person Years
	419.5	3	94	23	51%		0.6	1000	111806	14	2174

Table 2 pg. 2

Table 2 pg. 3

Figure 9

When evaluating the decision to sell two hotels located in the vicinity of the Old Town Square (parcel 14 and 15 in Fig. 4 and 6), it should be noted that the City Council members considered a free-of-charge transfer of one of the buildings to a newly established higher school which operates its main teaching facilities outside the Old Town area. The decision to sell the building to a hotelier was clearly market-oriented and targeted at the stimulation of tourism, i.e. one of the main priorities of Sandomierz.

Different forms of land transfer were another important feature of sale/purchase transactions. Parcel No. 15 was transferred on a perpetual usufruct basis, while parcel No. 14 was sold. In the latter case the City lost control of future property use and stream of lease revenues which could be adjusted on a regular basis. Considering the City's long-term policy, any transactions that ensure a steady flow of funds and control of building management are preferable. However, prospective investors may be discouraged if they cannot obtain ownership and title to real estate which could then be mortgaged or used as collateral.

Moreover, it is surprising that the highest bid for perpetual usufruct right to a built-up plot of land was PLN 675,000, while the other developed plot, much more attractive in terms of location and architectural merits, was sold at an auction for PLN 470,500. Since both prices come from competitive tenders held over a 4 month period, a question arises whether the City ensured that all potential bidders had adequate information about the auction in the case of parcel No.14. In other words, did the City obtain a fair price?

Transfers of residential land (to the City) on a free of charge basis are undoubtedly highly beneficial to the City. It is recommended that the City analyze vacant State Treasury-owned land and develop a strategy for its take-over by the City. The principles of this strategy are discussed at length in Strategy Chapter.

No serious inconsistencies or mistakes were noted in City's land management from 1992 to 1997. Some of the transactions and property restitution processes may be criticized as "lost opportunities," but they do not jeopardize the potential for a positive impact on the city's main development priorities and a better use of municipal real estate.

The presentation of the list of sale/purchase transactions and their locations was mainly intended to focus the attention of City officials on a gradual decrease of municipal property assets in most attractive locations. Meanwhile, land supply in the most attractive locations for potential investors is pre-requisite for the stimulation of local development. The approach to achieving this objective is presented in the Strategy Chapter.

ANNEX 1
Appraised Market Value of Real Property
Located at Długa Street in Sandomierz

(Land parcel location. See Fig. 9)

Date of Valuation: August 1996
by Appraiser from Voivod's Roster

General Information

Valuation commissioned by Sandomierz City Hall on July 31, 1996, file no: GP.8325/12/96;

- ? **Object of valuation:** real property no 315/3, area of 2923 sq. m, located at Długa Street in Sandomierz, Mokoszyn Neighborhood;
- ? **Purpose of valuation:** to assess market value of property mentioned above as per its function indicated in Master Plan prior to and after Plan amendment.

Legal Grounds

- ? The Land Management and Expropriation Act of April 29, 1985 (Journal of Laws No 30/1991, Item 127, as amended);
- ? Regulation of Minister of Physical Planning and Construction, dated March 1, 1995 on detailed procedures of property valuation (Official Journal Monitor Polski No 13, Item 163);
- ? Regulation of Tarnobrzeg Voivod, dated January 17, 1996 on establishing a voivodship roster of approved appraisers of real estates, buildings, units and other facilities;
- ? The Civil Code.

Supporting Materials

- ? Property Valuation — a collective study edited by Prof. Andrzej Hopfer;
- ? Market prices of apartment houses, privately-owned units, garages, agricultural land and buildings plots, as reflected by sale/purchase contracts within the jurisdiction of Tax Office in Sandomierz in 1996;
- ? Market approach — property sale price quotations, as published by WACETOB.

Source Information

- ? Inspection of real estates conducted on August 15, 1996;
- ? Analysis of notarial deeds concerning comparable real estate purchase contracts concluded on the local market;
- ? Zoning requirements of Master Plan for Sandomierz City;
- ? Land register maintained by District Office (Urząd Rejonowy) in Sandomierz.

Valuation Methodology

Residential-zoned land was appraised according to comparative market method consisting of comparison with the value of comparable real estates sold under contracts of the civil law, while taking into account available municipal service, power and gas supply, land function under existing physical planning scheme, land development level, location and attractiveness factors.

Also the value of agricultural-zoned land was appraised using comparative market method consisting of comparison with the value of comparable agricultural properties sold under contracts of the civil law, while taking into account type and class of farmland.

1 Description of Real Estate

The plot no 315/3 of 2923 sq. m located in Sandomierz at Przedmiescie Mokoszyn, Długa Street.

The plot has clear ownership status and Mortgage Registry No KW 16929; owner: Ms. ____.

According to the former master plan for Sandomierz City, the plot was located in area coded M 18 RP - RO, i.e. „Farmland and Gardening Area”.

Heretofore, the plot was formerly used as farmland. The plot was classified in the Land Register as R I — 2923 m sq; the plot of regular shape located in an intermediate urban zone.

According to amended local master plan for Sandomierz City, the plot is located in zone coded M 33 MN, i.e. „Area of plots for the planned single-family development. Built-up area contours and plot sub-division as per detailed draft plan amendment. There are access roads to the local road. The volumes of residential buildings of 1-2 above basement floors are defined. It is allowed to erect non-residential buildings there. The land is to be provided with complete services. In the period of transition it is recommended to use gas heating or to connect buildings to hospital's boiler house. The use of sealed septic tanks is allowed until completion of new sewage treatment plant. The requirements for execution of connections to municipal service networks should be obtained from network operators.”

The land is not developed, there are no services available and its location is of average attractiveness.

2 Real Estate Valuation as per Master Plan M 18 RP RO

According to analysis of notarial deeds, sale prices of soil class I agricultural properties located in Sandomierz Mokoszyn range from PLN 80 to 130 PLN per 1 are (100 sq. m).

This agricultural property value appraisal is based on comparative approach, whereby the value of appraised property is assumed equal to the price of comparable property offered for sale on a free market. The appraisal is based on two comparative offered for sale agricultural real estates most similar to the appraised property.

- ? Property under transaction Rep. “A” No 2864/95, concluded on December 2, 1995, which included plots no 43 and 44, total area of 0.98 ha, located in Przedmiescie-Mokoszyn and classified as R I — 0.39 ha, R II — 0.17 ha and R III a — 0.42 ha, as sold for PLN 9,800. Average contract price was PLN 100 per one are.
- ? Property under above transaction composed of plots no 45, 46, 47 and 48, total area of 1.63 ha, located in Przedmiescie-Mokoszyn and classified as R I - 0.74 ha, R II — 0.52 ha and R III a — 0.37 ha, as sold for PLN 16,300. Average contract price was PLN 100/1 are.

In order to consider price increase a time factor coefficient was applied:

$$Cz = \text{PLN } 100/\text{are} \times 1.20 = \text{PLN } 120/\text{are}$$

This price is consistent market value of 1 are plot as indicated in market quotations and findings of Sandomierz Tax Office.

Valuation of agricultural property no 315/3:

$W_g = 0.2923 \text{ ha} \times \text{PLN } 12,000/\text{ha} = \text{PLN } 3,507.60$

$W_g = \text{PLN } 3,508$

Say: three thousand five hundred eight new Polish zlotys.

3 Property Valuation According to Master Plan M 33 MN

The analysis of market price quotations for property in Sandomierz land assembled areas zoned as single-family residential revealed that prices have ranged from PLN 10 to PLN 23 per 1 sq. m of land, according to notarial deeds.

According to Tax Office in Sandomierz, the prices range from PLN 10 to PLN 15 per 1 sq. m of land.

In order to establish the market value of residential real estate, similar and the most representative local real estates were selected for comparison. The valuation was based on contract prices of comparable real estates, as corrected for any dissimilarities from the appraised real estate.

Comparable real estates are:

- ? plot no 1019/21, area of 353 sq. m — Rep. A No 1946/96 of June 26, 1996, located at Krukowska Street in Sandomierz; best bid price: PLN 18.41/sq. m.

Cz — PLN 18.41/sq. m

Adjustment: (in minus)

land development — 25%

Adjusted price: $c = \text{PLN } 18.41/\text{sq. m} \times 0.75 = \text{PLN } 13.81/\text{sq. m}$

- ? plot no 7690/10, area of 694 sq. m - Rep. A No 1175/96 of July 1, 1996 (Notary Office in Tarnobrzeg), located at Rózana Street in Sandomierz; contract price: PLN 14.41/sq. m.

Cz - PLN 14.41/sq. m

Adjustment: (in minus)

land development — 15%

real estate development — 5%

total adjustment — 20%

Adjusted price: $c = \text{PLN } 14.41/\text{sq. m} \times 0.80 = \text{PLN } 11.53/\text{sq. m}$

- ? plot no 1088/2, area of 3815 sq. m — Rep. A No 1664/96 of May 30, 1996, located at Zawichojska Street in Sandomierz; contract price: PLN 12/sq. m.

Cz — PLN 12.00/sq. m

Calculation of adjusted price for 1 sq. m of land (arithmetic average):

$$c = (\text{PLN } 13.81/\text{sq. m} + \text{PLN } 11.53/\text{sq. m} + \text{PLN } 12.00/\text{sq. m}) : 3 = \text{PLN } 12.44/\text{sq. m}$$

$$c = \text{PLN } 12.45/\text{sq. m}$$

The assessed value of residential plot:

$$W_r = 2923 \text{ sq. m} \times \text{PLN } 12.45/\text{sq. m} = \text{PLN } 36,391.35$$

$$W_r = \text{PLN } 36,391$$

Say: thirty six thousand three hundred ninety one Polish zlotys.

The assessed value of real estate is within the range of local market quotations and findings of the Sandomierz Tax Office.

4 Comparison of Estimated Values

Farmland — PLN 3,508

Land for housing construction project — PLN 36,391

Difference in value due to the change of the Master Plan zoning classification of the land:

$$\text{PLN } 36,391 - \text{PLN } 3,508 = \text{PLN } 32,883$$

(say: thirty two thousand, eight hundred eighty three Polish zlotys).

Sandomierz, August 22, 1996

Annex 2:

Public-Private Partnerships in Transitional Land and Housing Markets Case Study from Bulgarian Cities of Bourgas, Rousse, and Stara Zagora

James Lynch and Lee Baker¹

Following the tumultuous socio-economic-political changes that swept Central and Eastern Europe and the Soviet Union during the late 1980s and early 1990s, the United States Agency for International Development (USAID) pursued in 1993 and 1994 the formulation of technical cooperation programs that assisted a number of municipal governments in the promotion of the development of land for housing through the use of public-private partnerships. This case study provides a brief review of the demonstration project designed and implemented in the Bulgarian cities of Bourgas, Rousse, and Stara Zagora. The demonstration project consisted solely of technical assistance and did not include any financial resources to support the delivery of land for housing. The real credit for the success of the project rests with the municipal authorities who realized the potential of the concepts, adapted them to meet their own needs, and developed a uniquely local process to achieve their own goals and objectives.

1 Overview

The Bulgaria Demonstration Project was conceived by PADCO, Inc. in a concept paper submitted to USAID in October 1993. The concept paper served as the basis for the development of a technical assistance program, commencing with a workshop in Bulgaria on how and why public-private partnerships are structured in market economies. This introductory workshop, conducted by a PADCO-led team of consultants in November 1993, was attended by municipal officials and private developers from the three municipalities of Bourgas, Rousse, and Stara Zagora.

The technical assistance program after the workshop was structured to assume a hands-on, consultative approach. The team made regular visits back to Bourgas, Rousse, and Stara Zagora at strategic phases during the overall RFP process. During these visits, the team essentially served as consultants to the municipal officials who were responsible for designing and implementing the public-private partnership projects in their respective communities.

The actual results of the demonstration project vastly exceeded initial expectations. By January 1995, only 13 months after the initial workshops, the three municipalities of Bourgas, Rousse, and Stara Zagora had selected sites, prepared RFPs, reviewed proposals, and awarded development rights for eight sites. In total, the demonstration project promoted the creation of public-private partnerships

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for the development of more than 300 housing units plus additional office, retail, and garage space in the three participating municipalities.

2 Background and Context

Bulgaria is located in Eastern Europe on the Black Sea and has a population of approximately 9 million (it is one of Eastern Europe's least densely populated countries). In the 1950s, its economy was dominated by agriculture, but the importance of industry has grown in the intervening years to the extent that now only a minority of the nation's labor force works on farms. Up until the early 1990s, Bulgaria's housing sector was modeled after the Soviet system, dominated by large state and municipal enterprises that constructed high-rise, concrete apartment buildings. As the majority of these enterprises fell victim to the collapse of the state planning system, a new class of entrepreneurs emerged: the private developer.

This new group of private developers in Bulgaria operated quite differently than the state and municipal construction enterprises of the past. For one, private developers paid close attention to the dynamics of the housing market and focused on building products that reflected market demand. In sharp contrast to the monolithic structures that typified the centralized planning era, the new housing forms were predominantly low-rise complexes consisting of 10 to 40 units; in many cases, the ground floors were reserved for commercial uses, such as small shops and restaurants. The purchasers of these new units were households that had the financial resources to buy the units with cash, often on an installment basis corresponding to predetermined construction benchmarks defined in the sales contract. Therefore, privately developed housing was (and still is) marketed to those households who had the ability to pay cash; given the distribution of income in Bulgaria, this group represents a very small segment of the housing market.

Although public-private partnerships had never been created in Bulgaria, the RFP approach was viewed with interest and enthusiasm by both municipal officials and private developers. From the public perspective, Bulgarian municipalities carry a tremendous liability (in the form of housing units) to compensate households whose property was expropriated during the 1980s for public purposes. Strapped for financial resources and further constrained by the First National Assembly's 1990 moratorium on the sale of municipal land, local officials embraced the concept of receiving a percentage of the proposed number of housing units (typically 20-30 percent of the total) in exchange for granting development rights on municipally owned sites; the developers, in turn, "pre-sell" the remaining units at market prices to interested home buyers. The units turned over to the municipality upon project completion are then provided to those households whose property had been taken without just compensation. From the private developers' perspective, the RFP approach increases access to highly desirable sites for development and offers an attractive alternative to the often complex and lengthy negotiations with private landowners.

3 Conceptual Framework for the Project

In transitional economies, it is important to clarify the roles and responsibilities of local governments when working with the private development sector. In Bulgaria, local governments have limited authority to regulate their own affairs. The national legislation and regulatory acts of the various

ministries and other central government agencies regulate, to a considerable extent, the way local governments can function. The central government establishes the guidelines for municipal budgeting and planning activities, and the local administrations are obliged to follow the priorities set forth by the central government.

Municipalities in Bulgaria can be characterized as having a strong mayoral form of government. Operating with large city councils, municipalities have certain functions that are controlled by elected councilors and city council committees. Such functions include the privatization of municipal property and overseeing transactions involving the conveyance of property rights on municipal sites. The authority to prepare and carry out such transactions can be delegated to the local administration by way of city council resolutions, or through enactment of local ordinances regulating the roles and responsibilities of local governments.

City councils and local administrations have their share of responsibilities in the process of creating public-private partnerships for housing development projects. In promoting private investment in housing development, the municipality must hold true to its foremost responsibility to use public resources efficiently while acting for the benefit of its citizens. To this end, the process of promoting private sector involvement in housing development should: 1) lead to cost-effective solutions; 2) promote creative approaches to problem-solving; 3) advance the attainment of specific municipal objectives; and 4) occur openly in a fair, yet competitive environment.

3.1 The Step-by-Step Public-Private Partnership Process

The principal vehicle or instrument for creating public-private partnerships is the RFP. RFPs are intended to: announce and encourage an open, fair competition between developers; elicit proposals that provide a complete and detailed description of a developer's plan, allowing for the judgment of an offeror's capability to carry out the proposed project; and protect the municipality's financial and legal interests. In general, an RFP should include at least the following: mandatory performance standards; general and special conditions or terms under which the developer will operate; a time frame for construction; a recommended format and specific procedures for preparing and submitting proposals; criteria by which competing proposals will be evaluated; and a schedule and process for reviewing the proposals and selecting a "winning" developer.

As an alternative to issuing an RFP, a municipality can first issue a request for qualifications (RFQ), which typically explains the objectives, time frame, and parameters of the proposed public-private partnership and also requests interested developers to submit their qualifications (e.g., experience, personnel, financial statements) for review. Hence, RFQs can be used to "pre-qualify" or "short-list" developers interested in participating in the project. Once this short list is determined, the municipality can issue an RFP inviting the qualified developers to submit detailed project proposals.

It cannot be overemphasized that municipalities must have a solid understanding of local real estate markets before attempting to structure public-private partnerships. On the demand side of the equation, consideration needs to be directed toward such factors as population growth, employment trends, the distribution of incomes, vacancy rates, sales activity, and so on. In transitional economies, such as Bulgaria, housing demand is profoundly affected by macro-economic conditions, such as

high inflation and interest rates, as well as the absence of long-term mortgage instruments. On the supply side, construction activity and absorption rates, differentiated by product type, size, and location, should be considered. Last but not least, information about private developers themselves is very important. A comprehensive assessment of the financial health, experience, and reputation of private developers provides invaluable information about potential “business” partners.

As shown in Figure 1, there are a total of seven steps in the RFP Process. Presented below is a description of steps one through five, leading to the selection of the “winning” developer(s).

Figure 1
Steps in the RFP Process

1. Establishing Specific Development Objectives
2. Identify Municipal Sites for Development
3. Prepare an RFQ and/or RFP
4. Prepare a Model Development and Disposition Agreement
5. Review Development Proposals and Select Winning Developer(s)
6. Negotiate and Sign Development Contract with Developer
7. Monitor Project and Enforce Contract

3.1.1 Step 1: Establishing Specific Development Objectives

It is important for a municipality to establish specific development objectives before initiating the RFP process. The municipality can use this process to achieve such housing development objectives as: 1) promoting affordable housing; 2) preserving historic structures and landmarks; 3) stimulating private sector development; 4) maximizing economic and social returns on municipal assets; and 5) a range of other more specific objectives related to a particular site. Objectives should be clearly outlined in the RFP. It is likely that the municipality will have multiple objectives for a site, and it may be useful to rank these objectives in order of importance. (See Figure 2 on the following page for a further description of municipal objectives in the RFP process.)

In order to achieve as much as possible by way of private development, municipalities will need to articulate their objectives clearly. It may be necessary to separate objectives, such as those pertaining specifically to a site (e.g., provide a play area for children) from those pertaining to city-wide or even national objectives (e.g., use energy-efficient technology).

3.1.2 Step 2: Identifying Municipal Sites for Development

Municipalities should carefully consider the suitability and attractiveness of a site before it is selected for a housing development project through the RFP process. In examining candidate sites, municipalities will want to consider the following types of issues.

- ? Is the location a good one for housing and would housing be consistent with existing land use plans?
- ? Is the size of the site appropriate for private investment?
- ? Is there access to critical infrastructure or, if not, will this infrastructure or connection be built?

? Is there clear title to the land?

The importance of site location and size is directly related to market demand. Because the private developer would assume the risk and responsibility of selling the housing to prospective buyers, it is critical that the proposed site be located where there is effective demand for the proposed type of housing. (Effective demand means that people both would want to **and** could afford to buy or rent the housing at full, unsubsidized costs.) At present, effective demand is likely to be greatest for housing in infill locations with access to central city amenities and services.

In terms of site size, smaller sites appropriate for perhaps 10 to 30 units are likely to be most desirable at present, given the chosen developer's probable need to pre-sell units in order to secure construction financing. With smaller projects, it is also easier to create a condominium ownership structure to ensure proper building management.

Access to infrastructure is another important factor in a site's attractiveness to private developers. Until mechanisms for funding infrastructure expansion exist, new housing should be promoted in areas served by existing infrastructure. Developers would ordinarily need to assume responsibility for on-site infrastructure improvements according to standards established by the municipality.

A fundamental prerequisite for the participation of private developers in a development agreement with a municipality is the existence of clear title to the site. In Bulgaria, municipalities are more likely to transfer "development rights," in effect, and not freehold interest in the property. Even though municipalities "own" many sites, they must ensure that they have the full authority to transfer development rights.

An RFP should contain a location and site map with a description of site features, planning constraints, and other salient information.

Figure 2**Municipal Roles and Objectives in the RFP Process**

It is important to establish specific development objectives early in the RFQ/RFP or RFP process. Some general municipal objectives that can be achieved through a public-private partnership housing project are: promoting home ownership, meeting housing needs, promoting economic development, generating municipal revenue, stimulating the real estate market, and enhancing the physical environment. As a starting point, some Bulgarian cities may find it useful to develop a comprehensive housing strategy as a framework for setting objectives for specific development projects. The main roles and responsibilities of cities in the RFQ/RFP process include:

Creating the Spirit of Entrepreneurial Partnership. A spirit of partnership is extremely important. It leads to the effectiveness of many other performance factors. In addition, the public sector needs to view its activities as would as entrepreneur, i.e., it must be willing and able to take risks to achieve results.

Preparing the Master Plan and Setting Objectives. The master plan and development objectives are a frame- work for private sector activity. The designation of certain lands for development provides a level of predictability of public actions. Defining both general and site-specific objectives aids private developers to prepare realistic responses to an RFP.

Facilitating Project Completion. This function includes taking all steps to make a land parcel legally available for private development, making a pre-appraisal of the site's market value, arranging for the effective phasing of development on the site, and expediting necessary government permits.

Promoting Fairness and Competition in Free Market Systems. The public sector must assure participants that the bidding process will be open and fair. The careful and thorough preparation of an RFP, with objective standards to guide the selection of a developer and with the drafting of a model DDA, can result in a fair process.

Providing Infrastructure and Related Community Facilities. Careful consideration needs to be given to the provision of infrastructure on proposed development sites. If the public sector will require the private sector to provide the infrastructure, then, in the spirit of partnership, the public sector needs to examine other ways it can offset the higher costs to developers. One way would be to reduce requirements on the number of living units that a municipality might otherwise insist on retaining, or by discounting the sales price of the site.

Assisting with Project Feasibility. The public sector can help with project feasibility by such measures as providing gap financing and discounting land prices and various fees. However, a municipality should offer no financial commitment unless 1) it has determined that the measure is justified in order to make a project feasible or affordable and 2) it is able to meet its financial commitment on time.

Project Management and Contract Enforcement. This is a key role for the public sector. Once a partnership has been established, it is important that the municipality manage its commitments to ensure that there will be no unnecessary delays due to permit processing or compliance with other agreed commitments. In a similar vein, the municipality needs to monitor the developer to ensure that the developer's performance meets agreed standards. The public sector must further ensure that legal remedies are available in the event that the developer, for whatever reason, fails to comply with some aspect of the written partnership agreement.

3.1.3 Step 3: Preparing an RFQ and/or RFP

A municipality can use either the RFQ/RFP (two-step) or the RFP (one-step) process. The advantage of the RFQ/RFP process is that developers not selected to receive an invitation to submit a proposal do not have to spend resources on the preparation of a full proposal. Eliminating some bidders at this point could reduce unrealistic bidding, and also reduce the municipality's effort in the selection process.

As part of an RFP/RFP or RFP preparation process, municipalities must undertake a number of activities, including the following.

- ? **Clarifying the Permit Approval Process and Simplifying If Necessary.** The permit approval process should be streamlined so as to reduce the developer's uncertainty, costs, and schedule. The permits are of two types. One type is for infrastructure connections to water, sewer, electricity, gas, telephone, and possibly heating. The other type, associated with the municipality and the state, permits the developer to develop the site (e.g., planning permits, building permits, historic/cultural permits). At a minimum, the RFQ/RFP should contain a complete listing of all permits required and the sequence of steps the developer needs to go through in order to secure all permits.
- ? **Defining Relocation and Site Clearance Responsibilities.** Relocation and site clearance responsibilities should be defined in order to ensure that development can proceed without unnecessary delays. If the project to be constructed is on a site with occupied housing, the municipality or the developer may be responsible for relocating tenants to other suitable housing. If the developer is responsible for site clearance, the value of the materials salvaged from the site should be taken into consideration in the bid price for the building rights.
- ? **Conducting Market Analysis.** To ascertain the feasibility of proposed development projects, a market analysis needs to be conducted. This could be achieved by requiring developers to submit a market study or analysis as part of their bids. Alternatively, the municipality could conduct a housing survey (a method used in developed market economies as well), which would yield valuable information to the municipality and could also be shared with private developers to help them better understand the market for new housing.
- ? **Defining Proposal Selection Criteria.** Developers need to be assured that they are competing on a "level playing field" and that the selection process is objective and transparent. In order to ensure that developers clearly understand how their proposals will be reviewed and evaluated, proposal selection criteria need to be explained in the RFP along with the process and time frame for bid review.

Listed below are the major criteria by which proposals are usually evaluated.

- ? **Conformance to Municipal Objectives.** The extent to which the proposal conforms to city-wide and site-specific objectives.
- ? **Timeliness of Construction.** The time frame from contract to commencement of construction and to completion of construction, including the schedule when payments and/or transfer of living units to the municipality would occur.

- ? **Performance.** The quality of the development team, including references for the developers, the contractor, the investor, the architect and engineers, and the marketing person or organization.
- ? **Aesthetics.** The exterior appearance of the proposed building and grounds.
- ? **Quality of Development.** The quality of the proposed construction.
- ? **Financial Feasibility.** The likelihood that the project could be built and marketed as proposed.
- ? **Social Housing Needs.** The commitment of the developer to set aside housing units for low-income or disadvantaged groups, either directly or through the municipality. Also, the municipality might give preference to projects that contain market units designed to be affordable to the middle class.

3.1.4 Step 4: Preparing a Model Development and Disposition Agreement

The instrument that provides the basis for implementing a public-private partnership is the Development and Disposition Agreement (DDA). This is a comprehensive legal document that specifies the performance requirements and auditing procedures for a particular project. The DDA sets forth the specifications for all aspects of the project, including, among other things, site preparation and utilization, infrastructure provisions, financing, phasing, and scheduling. The DDA also provides the basis for resolving disputes.

A model DDA should be prepared for inclusion in the RFP so that developers understand the legal ramifications of entering into a development agreement with a municipality. A draft DDA also serves to clarify the project's specific objectives and procedures.

3.1.5 Step 5: Reviewing Development Proposals and Selecting Developers

The RFP submission, evaluation, and negotiation process must ensure fairness to all parties. Submission requirements should not unnecessarily preclude smaller or more recently established firms from competing. Evaluation criteria should be pre-specified in the RFP and should incorporate a numerical ranking system for judging proposals. A numerical ranking system ensures that proposals are evaluated on an objective rather than a qualitative basis.

Municipalities should establish official proposal review and selection committees. Such committees should be comprised of appropriate municipal personnel and should also include non-municipal employees. The purpose of including non-municipal employees is to add expertise as well as to promote greater transparency to the review and selection process. Examples of appropriate non-municipal professionals for such committees include business leaders, local residents, and community interest groups.

Last but not least, the negotiation of the final agreement between the developer and the municipality should be relatively consistent with the RFP and the proposal itself so that the fairness of the selection and negotiation process is not in question.

4 The Results of the Housing Development Demonstration Project

4.1 Overview

This section presents a brief description of the results of the demonstration project in Bourgas, Rousse, and Stara Zagora as of February 1995, the time at which the technical assistance supporting the project was completed. In the process of creating public-private partnerships, each municipality confronted different issues, problems, and challenges that also served as important lessons in how the public and private sectors can work together to achieve mutual interests and objectives.

4.1.1 Bourgas

Bourgas is a Black Sea port with a population of about 350,000. Its economy is highly dependent on shipping and tourism, the latter particularly during the summer months.

On 15 April 1994, the municipality of Bourgas announced the availability of its RFP for three contiguous, municipally owned sites in the Lazur District of town. This area is a prime location for housing, given its proximity to the Sea Garden Park, the Black Sea, and the central part of town. Surrounding uses are predominantly high-rise residential building. Compensation to land owners for development rights in this district have averaged 40-45 percent of gross building area. In October 1994, the sales price for new residential units in this area was approximately 16,000 lev (US\$250) per square metre.

The RFP specified that the minimum compensation to the municipality for each of the three sites was to be 30 percent of the gross building area. The RFP also defined acceptable development parameters and uses for the three sites, emphasizing residential uses and permitting commercial uses and garages on the ground floors. Developers were encouraged to submit development proposals for one or more of the three sites.

The deadline for submission of proposals to the municipality was June 6th. In total, 21 proposals were submitted by 12 development companies for the three sites. On June 7th and 8th, the municipality conducted a comprehensive proposal review and selection process. Developers were required to present their proposals before two committees: the Architectural Review Committee and the Economic Review Committee. The committees' members ranked each of the proposals across a wide range of architectural and economic criteria.

On the morning of June 9th, the municipality publicly announced the finalists for the three sites. The Bourgas-based firms of Montagi and Masters were selected to develop sites 43A and 43B, respectively; Odessos, a development consortium from Varna, was selected to develop site 43C.

The ensuing months marked a period of negotiation between the municipality and the "winning" developers. These negotiations focused on finalizing compensation terms (i.e., specifying the size of the types of housing units to be provided to the municipality) and securing necessary permits and approvals from the municipality. In total, approximately 200 units were proposed for development on the three sites with the municipality receiving an estimated 67 units (33 percent of the total), as well as commercial, garage, and office space as compensation for granting development rights to the parcels.

On September 6th, three months after the municipality selected the “winning” developers, Masters Company commenced construction on site 43B. The municipality sponsored a ground-breaking ceremony to commemorate the event. Ground-breakings for the other two projects took place in November 1994.

4.1.2 Rousse

Rousse is a city of approximately 186,000 people, the fourth largest city in the nation. It is located in northern Bulgaria on the Danube River and is the country’s largest river port.

On 12 March 1994, Rousse released three RFPs for three separate municipally owned sites. One RFP was for a site in the city centre (Site A); another RFP was for a municipally owned site on the outskirts of town in a residential district (Site B); and the third RFP was for a site adjacent to an industrial district east of the city centre (Site C).

Rousse’s Local Ordinance No. 7 fixes compensation levels to the municipality (for development rights) at 30 percent of gross building area for central city sites and 20 percent for other parts of the city. Therefore, the minimum compensation levels, as defined in the RFPs, were 30 percent for the central city site and 20 percent for the other two sites.

The central city site is located on a busy traffic circle in front of the City Gardens. Compensation to land owners for development rights in this district have averaged 30-35 percent of gross building area; the October 1994 sales price for residential units in this area was approximately 9,500 to 13,000 lev (US\$150 to US\$200) per square metre. Recognizing that the site is more appropriate for commercial than for residential uses, the municipality specified in the RFP that if commercial space is developed, compensation to the municipality in the form of housing could be provided off-site. In other words, the developer could develop or purchase new residential units and provide these units to the municipality as compensation for development rights to the site.

On April 11th, Rousse received three proposals for the central city site, but no proposals for the two outlying sites. After reviewing the proposal, the municipality selected the “winning” developer, Domostrene, on May 20th. Domostrene’s proposed development includes a combination of shops and office space; the company also agreed to provide the municipality with approximately six housing units off-site as compensation for development rights to the central city site.

As noted above, no proposals were submitted for the two outlying sites because developers viewed the minimum compensation requirement of 20 percent to be too high for the locations. In a second attempt to solicit developer interest in the outlying residential district site, the municipality released the RFP again (unchanged) in August; however, no developers submitted proposals. As a result, the municipality amended Local Ordinance No. 7 in September to eliminate the 20 percent compensation requirement for sites outside the central city; however, the 30 percent requirement still applies to central city sites.

Rousse had identified another municipally owned central city site to include in the demonstration project, but a pre-existing contract between the municipality and previous land owners stipulated a minimum compensation requirement of 40 percent. Acknowledging that no developer would be able to relinquish 40 percent of their project, the municipality decided to link this site (Site D1) with

another municipally owned parcel (Site D2) designated for a public parking garage. For both sites, the typical compensation to land owners for development rights averages 25 percent of gross building area; the average sales price for new housing in these areas was 9,500 lev (US\$150) per square metre in October 1994. On September 6th, the municipality released its fourth RFP soliciting development proposals for the housing site as well as the site for a public parking garage.

By early October, the municipality had received four proposals for the two “linked” sites. On October 10th, the Dunav Company, representing a consortium of four companies, was selected as the “winning” developer. Ground-breaking for the housing site occurred on October 16th, as the developer used pre-existing plans for the site made available by the municipality. Of the 68 units planned for development, approximately 24 units were used to compensate previous land owners; the ground floor was developed with commercial uses. Construction of the public parking garage was expected in April or May of 1995 and the municipality received approximately 25 percent of the parking area as well as a portion of the ground-floor commercial space as compensation for development rights to the site.

4.1.3 Stara Zagora

Star Zagora is located in the agriculturally rich central region of Bulgaria and has a population of about 165,000 people, making it the nation’s sixth largest city. The city’s economy is largely agriculturally based, but the manufacturing sector also plays an important role.

Unlike Bourgas or Rousse, Stara Zagora was without any local provisions or ordinances permitting the transfer of development rights to developers. Although Stara Zagora initially set out to draft a local ordinance modelled after Local Ordinance No. 7 in Rousse, the municipality decided to adopt an interim measure, drafted by the Mayor, permitting the process to proceed as a demonstration. The Municipal Council adopted this measure on March 16th, allowing two municipally owned sites to be included in the demonstration project.

The first site (Site A) identified by the municipality is located downtown in a residential neighborhood. A state company had laid a foundation on this site in the late 1980s and, therefore, the municipality felt it was necessary to: 1) cancel or revoke the state company’s development rights to the site; and 2) compensate the company for the foundation. On further investigation, the municipality discovered that the company had never been granted legal rights to develop the site. As a result, the company became more receptive to negotiating a settlement for the foundation.

The second site (Site B) is also in the central part of the city, approximately one block east of the first site. Both sites are very appropriate for residential development with low-density commercial uses on the ground floors. Compensation to land owners for development rights in this central area has averaged 25-30 percent of gross building area and the average sales price for new housing was 10,500 lev (US\$160) per square metre in October 1994.

On September 1, the municipality announced the availability of two RFPs. The original deadline for submission of proposals was September 30th, but the municipality extended this deadline by 20 days for both sites. The compensation requirements for the first site were spelled out in detail (i.e., number of flats, by size), as the municipality was obligated to compensate the original parcel owners who were displaced by the former, unsuccessful development project. For the second site, the compensation requirements were not pre-specified.

On October 20th, the municipality received four development proposals for the first site and three proposals for the second site. For the first site, the “winning” developer, Chertoyanov, was selected on October 28th. Development plans suggest that a total of 30 units will be developed, 9 of which will be given to the municipality along with a portion of the ground floor commercial and garage space. The “winning” developer for the second site, Informat, was selected approximately one month later on November 24th. Only 11 units will be developed on this site, 3 of which will be given to the municipality along with some ground-floor commercial space. Construction on both sites is expected to begin in early 1995.

Summary

By January 1995, only 13 months after the initial workshops, the three municipalities of Bourgas, Rousse, and Stara Zagora prepared and released RFPs for 10 sites. Developers had also prepared and submitted proposals for all of the sites, except the two outlying parcels in Rousse, where the minimum compensation requirement of 20 percent was deemed to be too high. In total, the demonstration project promoted the creation of eight public-private partnerships for the development of more than 300 housing units plus additional office, retail, and garage space in the three participating municipalities. The status of the development projects proposed as part of the demonstration project, as of January 1995, is summarized in Table 1 on the following page.

In February 1995, the PADCO team organized a National Conference on Public-Private Partnerships, which served as the capstone for the demonstration project and the conclusion of the technical assistance to the three municipalities. The Conference, which was held in Sofia, served two purposes: 1) to provide municipal officials and private developers from the three participating municipalities the opportunity to share their experiences in creating public-private partnerships; and 2) to assess how the process could be improved and to highlight the legal and policy reforms required to support the transition toward a private, market-based housing delivery system in Bulgaria.

The Conference attracted more than 100 participants from throughout Bulgaria, including 45 municipal officials, 30 private developers, and seven national government officials. Lively discussions were held for two days on such topics as selecting appropriate sites, preparing RFPs, and preserving transparency and objectivity throughout the process. Additionally, the Conference marked the beginnings of an ongoing dialogue among municipal officials, private developers, and national government officials concerning necessary reform measures to support the privatization of Bulgaria’s land and housing markets.

5 Lessons Learned and Conclusions

In addition to producing tangible results, the demonstration project served to promote greater understanding among municipal officials and private developers in Bulgaria about how to structure successful public-private partnerships in transitional land and housing markets. The municipal officials and private developers came to learn that one of the most important ingredients for success is the perceived transparency of the process itself. Each of the participating municipalities adopted a number of precautionary steps and measures, especially during the proposal review and selection stage, to ensure that the overall process was perceived to be fair and open by both private developers and the public.

Municipal officials also gained greater awareness of how the forces of supply and demand shape the markets for land and housing. The demonstration project, for example, forced many municipal officials to view the process from the perspective of the private developer. As a result, municipal officials came to recognize the importance of site selection, the disadvantages of fixed compensation requirements, and the financial implications of requiring developers to provide infrastructure.

In the legal and policy arenas, the demonstration project highlighted the need for municipalities to both prepare and ratify local ordinances to permit the transfer of development rights on municipal properties. It also became clear that wholesale amendments to the Law on Territorial Development were needed to clarify the roles and responsibilities of the public and private sectors when it comes to the provision of infrastructure. Another important issue that arose during the implementation phase was how to structure the development and disposition agreements to ensure contract compliance by both the public and private partners in the process.

Last but not least, the demonstration project served to illustrate the importance of establishing clear communication linkages between the public and private sectors. Appraising developers of the proposed process and soliciting their input from beginning to end is fundamental to creating viable, sustainable public-private partnerships. Clearly, without the interest and participation of private developers, even the best-prepared RFP will elicit no response.

**Table 1: Status of Development Projects in Bourgas, Rousse, and Stara Zagora
January 1995**

Municipality	Site	Number of Proposals Submitted	Number of Housing Units			Area (in square meters)			Additional Compensation to Municipality
			Total	For Developer	To Municipality	Site	Foundation	Gross Building	
Bourgas	43A	8	39	26	13	1,545	816	3,618	Commercial, garage, and office space
	43B	6	60	40	20	1,332	874	4,940	Commercial, garage, and office space
Rousse	A	3	—	—	—	550	480	1,920	Six housing units off-site
	B	0	—	—	—	1,000	—	—	—
	C	0	—	—	—	980	—	—	—
	D1	4	68	44	24	N/A	1,153	7,704	See below
	D2	4	—	—	—	8,000	5,000	22,000	Commercial and garage space
Stara Zagora	A	4	30	21	9	600	432	2,853	Commercial and garage space
	B	3	11	8	3	300	200	726	Commercial space

Notes:

1. In Bourgas, Sites 43A, 43B, and 43C are contiguous and development rights were awarded to three different developers.
2. In Rousse, Site A (located in the central city) will be developed with commercial uses and the developer will provide the municipality with six housing units (off-site) as compensation for the development rights to the site. No proposals were submitted for Sites B and C, as developers considered the 20 percent minimum compensation requirement to be too high. Sites D1 and D2 are not contiguous, but were linked together in the RFP; Site D1 will predominantly consist of residential uses, whereas Site D2 will predominantly consist of a parking garage.
3. In Stara Zagora, Sites A and B are not contiguous and development rights were awarded to two different developers.

Annex 3:

Public-Private Partnerships in Transitional Land and Housing Markets

Case Study from Ekaterinburg, Russia

Mark Brown and Lee Baker²

Following the tumultuous socio-economic-political changes that swept Central and Eastern Europe and the Soviet Union during the late 1980s and early 1990s, the United States Agency for International Development (USAID) pursued in 1993 and 1994 the formulation of technical cooperation programs that assisted a number of municipal governments in the promotion of the development of land for housing through the use of public-private partnerships. This case study provides a brief review of the Ekaterinburg “Land for Housing Demonstration Project.” The demonstration project consisted solely of technical assistance and did not include any financial resources to support the delivery of land for housing. The real credit for the success of the project rests with the municipal authorities who realized the potential of the concepts, adapted them to meet their own needs, and developed a uniquely local process to achieve their own goals and objectives.

1 Overview

With the renewed possibility of private ownership, land and housing markets are growing fast throughout Russia. Yet today few Russians have much experience buying and selling land, and even theoretical information about the functioning of land markets is scarce. Nevertheless, public officials and administrators, together with builders and developers are gaining this essential experience, together with the realization that the transition to the market economy requires new tools and techniques, and new ways of doing business together.

In 1992, the city of Ekaterinburg requested technical assistance from USAID to “stimulate housing construction from non-budget sources.” A feasibility study conducted in early 1993 (PADCO 1993) identified the lack of housing finance and poor access to land as the most significant obstacles to restructuring and growth of the construction industry, and the emergence of private land and housing markets. The Land for Housing Demonstration Project implemented in 1993-94 set the objective to improve developers’ access to land by selling municipal sites through an open and transparent process of competitive tendered bidding.

Although land sales and even private ownership of land were then highly controversial, the project culminated in the sale of development rights (convertible to private ownership) to a private developer, who subsequently completed the first townhouses built on the site in January 1997. The city budget realized more than \$140,000 from the sale of 1.1 hectares of serviced land. In addition, five families that had occupied substandard housing as municipal tenants on the site were relocated to modern apartments at the developer’s expense, thus increasing the value of the sale to the city as these families were then removed from the housing waiting list.

² Mark Brown was PADCO, Inc.’s project manager for the Ekaterinburg demonstration project. Lee Baker led PADCO’s early initiatives in Central and Eastern Europe and the former Soviet Union.

The city conducted a second round of tenders in 1994, but could not sell the five parcels that were offered because the city undercut land sales by continuing to give away land at virtually no cost, compounded by the mistake of overpricing the parcels that were offered for sale. While developers continued to express interest to bid and pay for sites, the city administration continued free-of-charge allocation throughout 1994 and 1995, rather than adopting a demand-driven market strategy. Nevertheless, municipal officials learned how to sell land by competitive tender, and numerous builders and developers learned to estimate land prices and prepare competent bid proposals.

Equally important, the demonstration project introduced public sector officials to the new “market reality” in which the city must develop a new relationship with the emerging private sector — investors, developers, and builders — in order to assure adequate housing for residents.

2 Background and Context

The project is sited in Ekaterinburg (the old Sverdlovsk) in the heart of the Urals. The Urals region stretches roughly from the River Volga in the west to Siberia in the east, and comprises five oblasts and two autonomous republics in an area larger than Ukraine. With a population of roughly 20 million inhabitants, the region is important commercially, owing to its rich mineral resources and well-educated workforce. Founded in 1723, Ekaterinburg rapidly became the centre of the Ural’s mining and metallurgical industry. As a major waypoint for east-west surface transportation, the city grew to become an important hub of industry, commerce, and banking. During World War II, many defense and civil industries were relocated to Ekaterinburg. Today, with a population of 1.6 million, Ekaterinburg is effectively the capital of the Urals region, home to industry and commerce, research, and higher education, and seat of government administration. The skilled workforce and relatively high standard of public infrastructure endows Ekaterinburg with great opportunity for economic growth as Russia joins the global economy. Land and housing — and the real estate market — have important roles to play if Ekaterinburg is to capitalize on its economic development opportunities.

2.1 Land

As the most valuable public asset, the city’s land is a public wealth requiring careful management. Conservative local officials argued against selling land into private hands, but even in 1993 there were others who recognized that the continued development of new housing would require the participation of the private sector. It was also understood that a well-designed and -executed program of land sales could contribute significantly to the municipal budget.

However, prior to *perestroika*, there was no market in land, which was almost exclusively in public ownership. Nor was there a market in development rights, except that they were occasionally transferred between state enterprises in exchange for undisclosed, probably illegal payments (cash and in-kind). A limited form of “ownership” was authorized by which the City Soviet could allocate small parcels of land only to individuals, with rights to inheritance, but with the restriction that the land may only be sold to the City Soviet.

However, the most common way of providing land for housing construction was in the form of administrative allocation, which was at zero cost and for “perpetual use rights.” This was a very insecure form of tenure, ill-suited to the needs of private developers. The system of land allocation

was designed to serve the interests of large municipal and state-owned enterprises and the city's Construction Department. Following the destruction of World War II, demand for high-volume housing reconstruction led to an approach best characterized as "mass production," of which the land allocation process was an integral part. Important characteristics of this approach included:

- ? state enterprises obtained funds for housing construction from the state budget via their controlling ministries;
- ? the sites and projects were typically very large — some comprising entire districts or "microraiions" — suited to the construction of large high-rise apartment buildings;
- ? such sites were allocated unserviced to large developers capable of installing the necessary trunk and on-site infrastructure networks;
- ? no price or value was attached to the land, which was allocated free of charge to the developer (with exactions, as above);
- ? land was allocated to the enterprises in "temporary use rights" during the site development phase, with the right of renewal once the foundation was built, and converted to "perpetual use rights" with the completion and occupation of the housing; and
- ? little flexibility or discretion was allowed the developer on the location and timing of development, and the planning and architectural design of the housing.

The maneuvering of the parties to identify and control sites and the negotiation of exactions resulting in the administrative allocation of land was more like a sumo wrestling match than a free-wheeling game of Monopoly.

Interviews with private builders and architects and with the city's Chief Architect revealed that no private firm had ever successfully completed the formal allocation process, though several private construction firms possessed parcels in "perpetual use rights," which had been allocated prior to the privatization of these firms.

In July 1993, the Parliament of the Russian Federation (RF) approved the "Fundamentals of Land Legislation," which authorized land ownership by private individuals, the state, and municipalities, and which allowed land to be bought, sold, and mortgaged "in strict accordance with Russian legislation." Furthermore, following the failed "parliamentary coup" of October 1993, a new Presidential Decree reinforced these rights.

2.2 Housing

In 1992, the housing stock in the RF was almost exclusively in public ownership — by appointed and elected bodies of the federal and oblast government, by state enterprises, and by municipalities. Only a few percent of housing units were privately owned, mainly substandard traditional wooden housing lacking modern conveniences. In five years, starting from 1992, more than 30 percent of the housing stock was privatized, reaching roughly 40 percent in private ownership by 1996, when the rate of new privatization started to decline. Municipal governments remain the largest single owner of housing, partly comprised of the residual non-privatized municipal units, plus the mass of former enterprise-owned housing that has been transferred to them in the course of the restructuring and privatization of state enterprises.

The average size of a housing unit is 52.3 m² gross, or 33.3 m² net or “living” area excluding kitchen, bathroom/toilet, and hallways. The average gross area occupied per person is 16.2 m². Fully 56 percent of 500 households surveyed in 1994 responded they were either “relatively dissatisfied” or “definitely dissatisfied” with their housing conditions, with insufficient space and inadequate services being the leading sources of discontent (PADCO/ExMedia 1994).

The number of households in Ekaterinburg was estimated in 1993 at 486,000 (1,370,700 persons within the formal city limits, average household size of 2.82 persons). Of these, some 28 percent of households were registered on housing “waiting lists” as of June 1993. Any household suffering overcrowding and/or substandard housing quality was entitled to join one of the lists kept by the city and larger enterprises. “Overcrowding” is defined as less than seven square metres of living (net) area per person, or sharing of any flat by multiple families, and flats shared by more than one generation of the same family. “Substandard” flats are those that fall below minimum sanitary and technical norms, for example, those lacking piped water or sewerage.

The waiting lists do not provide a very accurate estimate of demand for new or improved housing, because of possible duplication and because the enterprises ceased to report this information to the city’s Department of Statistics. Many enterprises also terminated the waiting lists, especially during privatization of the enterprise and transfer of the housing stock to the city. Yet, they are another indication of unsatisfied demand for more and better housing.

2.3 Construction Sector

Beginning with the state privatization programs in 1992, there was massive restructuring and privatization of the construction industry. At the same time, a rapid decline of public (state and municipal) investment in new housing construction seriously eroded new public sector construction by 1994. The result was a change from a few, very large construction companies (or kombinats) to many firms of various types and sizes, many of them taking on the new role of housing developer. Thus, there was in 1993 an emerging housing developer industry with little or no experience in a market environment.

3 Conceptual Framework for the Project

An analysis of the local housing resale market conducted by PADCO in 1993 (*ibid.*) confirmed that land does have substantial value in Ekaterinburg, and that land values already responded to the same factors that would influence value in the marketplace. Interviews with builders and developers, plus anecdotal evidence, indicated that individuals, firms, and enterprises were beginning to invest in new housing construction in the private sector.

However, no land market existed since virtually all land was held in public ownership. Furthermore, the existing system of allocation of development and use rights favored large, public sector kombinats rather than the emerging smaller, private sector builders and developers. It was concluded that sale of vacant land for housing development could simultaneously stimulate the construction sector and generate revenues to the city budget. But several constraints were recognized:

? inability to sell land outright to developers;

- ? lack of experience by developers in calculating price to bid for land;
- ? lack of experience by city administration in proactive approaches to land disposal; and
- ? cumbersome system of land use and architectural controls.

3.1 Goals and Objectives

With these constraints in mind, the project (called the Land for Housing Demonstration Project) was designed with the goal of facilitating the private sector housing development industry. In conducting the ensuing sale by tendered bidding, the Ekaterinburg city administration adopted and publicized the following specific objectives.

- ? Promote private sector housing construction:
 - ? Increase options in the local housing market;
 - ? Stimulate the local economy; and
 - ? Harness the efficiencies of the private sector to improve housing conditions, reduce prices, and raise quality.
- ? Accelerate investment in construction:
 - ? Support private sector builders and developers while stimulating the development of the private housing sector;
 - ? Reduce barriers to entry of small firms into the market;
 - ? Demonstrate the profitability of the housing development industry;
 - ? Attract private capital to housing construction; and
 - ? Expedite land allocation procedures in order to accelerate the construction process.
- ? Capitalize on the value of land as a source of public revenues. Land is the city's largest unencumbered asset, yet it contributes virtually nothing to the city budget. The city administration desired to maximize the revenues generated from the sale of development rights.

The resulting project was therefore designed to assist the city administration in the adaptation of the land allocation process to better suit the evolving nature of the housing market and the construction industry. In essence, this meant taking steps to establish a land market.

3.2 Approach and Process

At the time the demonstration project was designed, land could not be sold outright to a developer (or any private firm). This significant limitation was subsequently removed by Presidential Order only in September 1993. This inability to actually sell the land had several implications for the demonstration project.

- ? The city would sell development rights, giving the developer a temporary form of allocation, with the right to convert to fee-simple ownership at no further cost.
- ? The existing process of allocation would be modified incrementally to better accommodate the needs and motives of private sector developers.
- ? Within the bounds of current legislation, the land rights to be allocated should be as close as possible to fee-simple absolute ownership.

The approach that resulted was to sell development rights by competitive tender in response to the city's request for proposals. Bidding was open to any Russian person (legal or natural), with bid proposals submitted to the City Architect's office in sealed envelopes. The RFP process has been the mainstay of property disposition for public agencies and for urban renewal in the United States and elsewhere, as it enables the consideration of a wider range of objectives than price — for example, type of use, design characteristics, and project feasibility. It also shares more similarities with the prior Russian system of land allocation in which a city exercised considerable control over the terms of the allocation. This has the advantage of familiarity to municipal authorities and developers (potential bidders) in Russia. In the early stages of a land disposal program, when it is important that the ensuing construction projects are successful, or where a city aims to achieve several different objectives, the RFP process is likely to be the best choice.

The Ekaterinburg authorities promised bidders that the rights purchased by the winning bidder would convert to outright (fee-simple) ownership on either of two conditions: (a) change in federal legislation allowing private firms to own land for the purpose of housing development or (b) sale of the constructed housing to owners who would then under legislation already in effect be able to obtain title to their land parcel.

The process by which the tender was prepared and executed was divided into roughly three phases.

- | | |
|---------------|---|
| Preparations: | Define the Objectives (ideally taken from a land management strategy) |
| | Define Management Structure for Tender |
| | Select Sites |
| | Obtain Owner's Approval (i.e., the city) |
| | Obtain Planning Permission (APZ) |
| | Design and Conduct Publicity Campaign |
| | Prepare Tender Documents |
| | Set Evaluation Criteria, Process |
| | Set Reserve Price |
| Bidding: | Hold Bidders' Conference |
| | Distribute Tender Documents |
| | Training Course for Bidders |
| | Receive Bid Proposals |
| | Close Bidding |
| Selection: | Evaluate Bid Proposals |
| | Notify Winner(s) |
| | Negotiate Sale |
| | Award Sites (Resolution and Contract) |
| | Register the Planning Passport to Buyer |

4 Results and Findings

4.1 Results

The city offered two adjacent sites totaling 1.1 hectares, authorized for construction of low-rise townhouses mixed with apartments. The two sites were well-located in the city's popular southwest district, with excellent access to public transportation and other amenities. The sites had essential infrastructure located in the adjoining streets. The sites were flat, and could easily be developed without the need for extensive site preparatory work.

The city's RFP required that the sites' developer be responsible for removing all existing structures (housing and garages) to one or more new sites identified by the District Administration. The city administration agreed to evict the occupants and/or owners of all temporary garages no later than the date of issuance of the letter to start construction. The RFP also stipulated that the developer was responsible for relocating, at his/her own expense, those families that legally occupied obsolete housing on the sites in compliance with existing regulations. Following relocation, the developer was responsible for demolition and removal of the obsolete housing. The RFP approved (as defined in the APZ) new construction for mid-rise townhouses and/or apartments not exceeding four floors in height, with built-in or adjacent garages.

The sites were advertised in the local and national print press, and more than 20 sets of tender documents were taken by prospective bidders at a public bidders' conference. More than 30 representatives of local builders and developers then attended a five-day training seminar. Five bids were received (all bids were for both sites). The city negotiated with two bidders and then allocated the development rights to the successful bidder, the private developer "UralMonolit." A contract was signed specifying the conditions of sale and a payment schedule. The developer made full payment for the sites, and fulfilled the conditions of relocating temporary garages to alternate municipal sites and provided good-quality replacement housing for municipal tenants who had occupied substandard housing on the sites. The first units (of 55 total) were completed in January 1997.

Major achievements of the project include:

- ? the city adopted an active approach to dispose of land in the local market;
- ? a new form of housing — townhouses — was authorized, and developers were given increased flexibility to propose designs suited to the preferences of buyers in the market;
- ? developers competed on price, submitting well-prepared bid proposals in response to a structured set of tender documents;
- ? the sale price for the sites was roughly 4.5 times the "reserve price"³ set by legislation, resulting in a new source of revenues to the city budget (at the time of sale, the price was equivalent to the cost of roughly 15 typical new apartments built by the municipal developer, or equal to the value of 23 apartments of average size and price trading on the local resale market); and

³ The "reserve" or "start" price below which the city would not sell the parcels was announced in the RFP (47 million Rubles, equivalent to US\$34,500). Federal legislation "On Payment for Land" (adopted 11 October 1991) dictates that the reserve price should be calculated as 50 times the land tax rate for the parcels (the tax rate itself is calculated by formula).

- ? the contract signed between the city and the private developer — for the sale of development rights convertible to ownership — was the first such contractual land sale of public land in Ekaterinburg, if not in Russia.

Following the success of the 1993 demonstration project, the City of Ekaterinburg offered five other new sites, designated for residential development, to be sold by competitive bidding in the third quarter 1994. By this later date, the new Constitution of the RF and other new federal legislation permitted land to be leased to developers, who would compete through a process of tendered bidding or auction.

4.2 Findings

The process successfully executed by the city contains several landmarks in the evolving relationship between public and private sector participants.

First, the city took a proactive approach to identify, promote, and sell the sites, using the 1993 Feasibility Study as a proxy for a more complete land strategy. Prior to this, the city had played a passive role, more typically waiting for state enterprises to ask for suitable sites for their projects. This marked a fundamental shift in the perceived role of the city in the housing development process, by acknowledging the need to attract and collaborate with outside partners.

Second, the city for the first time approved an Architectural and Planning Passport (called the “APZ”⁴) without first identifying the specific allottee for the site. In fact, the city sold to the developer the entire pre-approved APZ, giving the developer the right to develop the site within a specified design envelope. This was significant because it removed much of the uncertainty confronting developers under the old system of land allocation.

Third, the parameters specified in the APZ gave the developer greater freedom to determine what to build on the site, responding to market demand and consumer preferences. The tender documents thus clarified the developer’s rights and obligations, while reducing his risks by giving the freedom to adopt the design best suited to the perceived market. When the city offered five more sites for sale or lease in 1994, an even more flexible approach was adopted in which the APZ contained a simple description of the permitted uses and parameters of development on the site: “in accordance with the functional zoning of the neighborhood, the parcel is designated for housing construction . . . kind of construction: high density, 2-3 storey housing construction . . . underground or built-in garages (in house) shall be designed in accordance to the customers’ decision (design) . . . it is reasonable to use individual (non-standard) designs.”

Fourth, private developers were given training (by PADCO) in methods of formulating project proposals for private sector housing projects. The training was also designed to help bidders prepare

⁴ The APZ is the document that conveys the approval of the local authorities to develop a site. It defines precisely the type of uses permitted and project parameters, such as footprint, floor area, and volume. It specifies where and how the project is to be connected to existing infrastructure networks. The applicant traditionally would have had to obtain at least 20 separate approvals in order to validate the APZ, many of them requiring negotiation and payment of fees, exactions, or other payments.

high-quality bid proposals and to better calculate the bid price and to better understand how to calculate realistic land prices. Staff of the City Architect's office also attended the training course to gain insights into how developers operate in a market environment, as well as into other factors, such as location, ease of developing the site, speed of permitting, which affect land value and pricing in a market setting.

Fifth, the city agreed (by sale contract and Mayoral Resolution) to convert the development rights to ownership rights at a future date (ownership by the developer or by future owners of the housing units), thus greatly increasing the developer's security of tenure over the site. In the second 1994 tender offering, the city had more legal latitude, and offered several sites for long-term lease and several for sale into freehold.

Finally, the city made a conscious effort to conduct a fair competition and a transparent selection process. In addition to describing the sites and the development conditions, the RFP also clearly explained the bid procedures and bid evaluation criteria. Bidders were encouraged to attend the bid opening, at which the names of bidders and price offered by each were read out and recorded by the Evaluation Committee. In the 1994 offering, the requirements of the bid proposal and the evaluation criteria were greatly simplified, further lowering the cost of participation by bidders.

4.3 Success Criteria

4.3.1 Increase Supply of Land and Housing

Together, the above important milestones show a transition to market principles and to a more equal collaboration between the public and private parties involved in the transaction. As a partnership between the public and emerging private sectors, it is useful to note the contributions made by the two parties. As a public sector participant, the city accepted and encouraged private sector involvement in housing provision, and adapted its procedures and principles accordingly to make the transaction work and succeed as a model. This, in turn, increased or accelerated the supply of housing in the local markets. The developer made an in-kind contribution of new (low-income) apartments to replace existing substandard housing, and is now in the process of building and selling 55 high-income townhouse units. Furthermore, with the cash revenues it received, the city could prepare other sites for sale.

4.3.2 Improved Efficiency of Urban Land Markets

Dowall (1993) identifies six "important conditions" for competitive and efficient land markets: "Well-defined property rights; voluntary participation; many buyers and sellers; free entry and exit; perfect information; and similarity of product."

Ekaterinburg's demonstration project made progress when measured against most of these conditions. Although property rights were not sold in fee-simple absolute, the city did its best to guarantee future conversion to ownership within the confines of restrictive and changing federal legislation.

The competitive tender approach adopted by the city significantly reduced the barrier to developers bidding for land, and leveled the playing field for small private developers to compete on equal terms

with large construction kombinats. Five bidders participated in an open, transparent process, which stands in stark contrast to the administered allocation system of the Soviet era.

4.3.3 Improved Access to Land for Low-Income Groups

While the demonstration project did not explicitly set out to improve access to land for low-income groups, low-income housing was provided as a by-product, as mentioned above. In fact, the tendered bidding process can be used by a city to select developers for low-income and other public housing projects.

4.3.4 Basis for More Productive Relationship between Public and Private Sectors

The process of selling sites substantially increased the understanding of city officials of what is required to attract the interest of private developers. They gained unprecedented (in Russia) insight into the operation of the land market, and both sides learned useful techniques for setting land prices. The success of the 1993 sale demonstrated the commitment of the city to support emerging private developers, just as the solid performance of the winning bidder in making payments and developing housing gave the city confidence that the private sector can be a useful and productive partner.

One of the keys to develop this trust between the partners was to demystify as much as possible the bidding and evaluation process and the methods of estimating land value. A climate of uncertainty and lack of understanding of motives and market principles previously led each side to distrust the other and to assume that the other brought unknown (perhaps sophisticated or devious) skills to the negotiating table. Great care was taken to clarify the city's objectives, procedures, and criteria through the bidders' conference and the bid opening and in the preparation of the tender documents. The training course offered jointly to builders and developers and to city officials served to bring all participants to a common level of understanding of land value principles. Thus, the demonstration project established a more sympathetic environment for future partnerships.

5 Lessons Learned and Conclusions

Several "lessons" mentioned above bear repeating here, including:

- ? the importance of coaching both public and private participants through the process;
- ? the need to demystify the process in order to develop mutual understanding and trust; and
- ? the critical need for a sound technical approach — for example, the development of a workable legal basis for the land transfer and its control by the developer; developing an understanding of local demand for land and housing and the sources of finance for new construction; and strong emphasis on land value and pricing techniques.

Equally important lessons were learned from the failed 1994 land tender. Five sites were offered for sale or lease following an advertising campaign that included local, regional, and national newspaper ads and a direct mail campaign to approximately 150 firms. Sixteen sets of tender documents were given out at a press conference and two were later mailed out in response to direct requests made to the Chief Architect's office. There was apparently considerable interest on the part of developers to acquire new sites, but no bids were received by the deadline.

Interviews with several firms that obtained tender documents indicated that a primary reason for not bidding was the developers' sense that increased construction costs and uncertainty about the obligation of the developer to pay a further 33 percent infrastructure fee⁵ rendered development financially infeasible at the city's declared reserve price. In other words, the city overpriced the sites because it did not adequately consider developers' costs for site clearance and consequently the reserve prices set by normative formulas were not attractive.

In order to obtain a favorable response from developers, it appears necessary to reduce the prevailing cost of development. This goal should be equally of interest to the city, to developers, and to residents. Several of the factors that contributed to the high cost of development are either directly or indirectly under the control of the city administration. The following techniques to reduce costs were suggested in a diagnostic/review meeting following the failed second tender.

- ? First, reduce the reserve price by reconsidering how it is calculated. The objective in setting reserve prices should be to maximize the **revenues** to the city, not to maximize the **price**, which may simply result in overpricing land and undermining the bid process. In principle, each site should be priced according to its unique characteristics and in light of current market conditions.
- ? Second, by substantially reducing or eliminating the infrastructure fee, development costs and risks would be reduced and the sites would be more competitive with sites for single-family homes, which appear to appeal to the same affluent market.
- ? Finally, provide a staged, rather than single, up-front payment of the lease or purchase price. Even where the payment is indexed, the ability to spread the payment over time should increase affordability of the land to developers.

The pricing problem could have been reduced or eliminated, too, if the city had taken more care and allowed more time when calculating the reserve prices. This lapse stemmed partly from insufficient staff resources devoted to the second tender. As a result of underestimating the time and effort required to implement the process, the city paid too little attention to detail and made the critical error of not evaluating the reserve prices from the developers' perspective. This was done in retrospect at the diagnostic review by comparing the price and conditions of the sites to the sites sold in the previous year. It then became clear to technical staff in the City Architect's office that the sites were overpriced.

Finally, the sale of land should ideally be part of a municipal land strategy, formally adopted and firmly supported by local officials. In Ekaterinburg, the policy environment was confusing and at times contradictory. The city was not prepared to take the difficult policy position to stop giving away parcels, even as it sought to sell others. If the policy environment is not consistent nor consistently applied, then the overall effort may be undermined.

⁵ With the emergence of a private develop industry, many developers were required to pay a fee to cover the city's capital investment in off-site infrastructure. These fees reportedly ranged as high as 60 percent of the costs of a project. In Ekaterinburg, developers had balked at paying such fees at the time of the tender, and the City Council was debating whether to reduce the fee.

In a more strategic vein, the disposition of public land should be linked to an economic development strategy so that the city can achieve a wider impact over a longer time horizon when disposing of land that is effectively a finite asset. Russian cities do have considerable experience leveraging exactions in exchange for planning permissions (although sometimes the practices border on the illegal). However, they typically focus on narrow, short-term public benefits, such as requiring the builder to contribute public goods, for example, a district heat step-down station or the paving of roads. While this is an effective approach to generate capital investment, the use of land can play an equally vital role in the local economy, for example, by facilitating industrial relocation or attracting new types of industry to diversify the economic base.

Some constraints to replication have diminished since 1993. Notably, Russian law now allows the sale of leasehold and freehold interests. The approach developed in Ekaterinburg — an RFP and competitive tender — has been used with some success by other Russian cities.⁶ Perhaps the biggest change has been the rapid development of a market in small unserviced sites, usually located on the peri-urban fringes. These parcels, which were allocated free of charge for “individual private construction,” trade at low prices as a result of their abundance and the lack of basic infrastructure.

The demonstration project conducted in Ekaterinburg focused on improving developers’ access to land to support the emergence and growth of land markets and the private construction industry. The project devised and demonstrated land disposal methods oriented to the private market, using competitive tendered bidding to set a market price for the parcels. Private developers were trained to calculate realistic bid prices and to prepare competitive bid proposals. As a result, the city and a private developer signed a contract for the sale of development rights, convertible to ownership — the first such contractual sale of development rights in Ekaterinburg, perhaps in Russia.

The project was conducted in an unsettled political and economic environment, which complicated the pursuit of goals and objectives. Issues such as the privatization of land were politically charged, and government bodies at all levels had yet to articulate clear policies for reform in this sector.

Yet the project was successful in bringing politicians, administrators, and technicians together with their private sector partners — builders, developers, and investors. Jointly, they gained valuable experience with the development of housing in a market economy. By helping demystify the issues and techniques of land development, the project elevated the mutual understanding and trust of the public and private sector participants. The result is a new approach to development in which public and private resources can be put to productive use. The city, rich in land but strapped for cash, started to collaborate with the private sector in order to house its residents and establish conditions for economic growth.

Additional evidence of growing openness toward private developers came in the city’s formulation and adoption in 1995 of a new set of “Rules for Urban Development” designed as a handbook to facilitate the development and construction permitting process. The authors of the plan, several of

⁶ A 1995 \$400 million World Bank loan supports the emergence of private land markets in several other Russian cities (St. Petersburg, Tver, Novgorod, Nizhny Novgorod, Bernal, and Moscow) by servicing and auctioning land by competitive bidding to contribute to the production of 30,000 new dwelling units.

whom participated in designing and conducting the land sales demonstration project, intentionally set out to provide a single volume containing all the rules controlling development in the city. Only a few years ago, such a document would have been restricted as a State secret. The very fact that it was prepared and published indicates a new willingness of the city to collaborate with private partners.

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Annex 4:

Working Paper for Polish Gminas: Land Management and Strategic Planning

Jerry Erbach⁷

1 Introduction

Traditional spatial “master” planning has not often achieved its expected results, a result that is commonly due to the lack of common understanding, even among local government officials, about the “meaning” or purpose of the plan. Although an “approved” plan is presumed to be a city government’s “official” position about land use and its development, individual agencies frequently interpret the plan in their own way. The perspectives of the city planner about the value of various aspects of the plan, for example, may be very different from those of other city officials, departments and/or implementing agencies. In addition, private sector actors who may know something about overall plan requirements, may also disagree with and/or basically disregard its specific directions.

Experience has also shown that any type of plan will likely lose its capacity to reflect local values and to motivate positive compliance their is active participation and involvement of all elements of the local community in its formulation. The strategic planning approach is based very much on the market-sensitive perspective which it encourages. A local process, based on a perspective that is able to deal creatively with the pressures of urbanization, often leads to a very effective land management strategy.

The following strategic planning process is suggested as a means to resolve some of these problems. It is designed to be an ongoing, transparent and flexible process which can generate a maximum amount of community support.

2 General Description of the Process

The strategic planning process specifically helps a city to develop a future vision of itself and to understand the full range of choices that can be made to achieve this vision. The city can then elaborate an action plan based on this vision and choices.

The process is characterized by:

- ? a thorough assessment of the city’s basic strengths, weaknesses, opportunities and constraints;
- ? the consideration of important events and changes that are taking place around the city that present additional problems or opportunities; and
- ? a focus on strategic issues;
- ? the explicit consideration of resource availability; and

⁷ Jerry Erbach is an Architect/Planner working for PADCO, Inc. During 1997 he assisted the Polish Gmina Ostrow Wielkopolski to develop a market-oriented approach to land management and the Land Studium (technical assistance funded by USAID).

- ? an orientation towards action planning with a strong emphasis on practical results.

Effective strategic planning aims to define appropriate long-term directions for positive city change and a short-term operating framework through which specific changes can be achieved. The effective combination of strategic and action planning make it possible for the city to maintain a development balance between its economic, cultural and physical environments and at the same time, to optimize the use of existing resources in response to new opportunities.

Strategic planning is a conscious approach for broad-based innovation based on the continuous updating of information and the highly responsive formulation and adjustment of the overall strategy.

Involvement of the general public, interest groups, and various government agencies in all phases of the process is one of the keys to stimulating this type of planning process and to achieving the necessary consensus. A variety of links to city residents and agencies must be established in order to generate mutual understanding and trust among the often very divergent interests.

3 Basic Steps in the Process

The basic steps in the strategic planning process include the following (these steps can be modified).

3.1 Development of a Plan for Planning

Both public and private sector participants in the city's development should be involved in developing the basic framework and approach to be used in the strategic planning process. A strong commitment to the process and its success can only be achieved if all those involved in the city's development are included from the start.

The overall process will involve a number of basic steps. These will include:

- ? establishing Working Groups at both the functional (e.g. land, housing, finance etc.) and neighborhood levels, as well as a Core Group made up of key officials and citizens to interface with the City Council. The Working Group on land, for example, will be concerned with assessing land markets, land values and land development potentials within a city. It will develop the land management strategy and prepare action plans to implement the strategy. The Core Group will receive the work of the Working Groups and essentially "validate" their recommendations prior to their formal approval and implementation. The Core Group will be a senior level group responsible for proposing regulatory and policy changes and improvements.
- ? identifying the most appropriate spatial planning "tools" that can be used in dealing with land development issues. The development and use of appropriate land development tools can play an important role in creating a positive atmosphere for land development and investment by helping the city to focus on opportunities rather than on constraints; and
- ? preparing operational guidelines for the implementation of this city-specific spatial planning approach to actual land development within the city.

The resulting strategic planning process is geared to generate a range of outputs through the operation of dynamic components that can be applied in response to changing circumstances.

3.2 Review of Agency Mandates and Stakeholders' Values

A complete review of agency mandates and stakeholder values should be carried out at the very beginning of the planning process. A clear understanding of the mandates and actual activities of the various participants in the city's land development is essential. Stakeholders and agencies staff will make up the multi-disciplinary working groups necessary to the strategic planning process. The creation of functional working groups, however, should create a positive atmosphere of working "through" rather than "for" specific agencies and institutions.

3.3 Assessment of the External and Internal Community Environments

The current planning challenge is to create and maintain communities which are affordable, efficient, scaled to human proportions and environmentally sound. An integrated assessment of both the external and internal environments surrounding a community should be used as the basis for identifying strategic issues and for setting the public agenda. Consequently, a thorough understanding of the internal and the external strengths and weaknesses possessed by the city as it attempts to address these strategic issues is essential.

Assessment of the internal environment will focus on current conditions, emerging trends and future prospects. In order to carry out this assessment, it is important to understand both the successes and failures of the past as a means of providing suggestions and alternatives for the future. The city's political, physical and economic development over the life span of current generations and the impact of the pattern of development based on current zoning practices should be thoroughly studied.

The strategic planning approach is also oriented towards a wider environment that extends beyond the city's administrative limits and/or planning boundaries. Assessment of the external environment will include an analysis of regional forces and trends acting on the community, demographic projections and patterns of migration, and competitive and collaborative forces which impact on economic productivity.

3.4 Identification and Analysis of Strategic Issues

A thorough assessment of the major issues that are likely to influence future city and land planning, management and decision making must be made.

The following broad categories of issues could be used as a basis for this assessment:

- ? economic development
- ? local government effectiveness
- ? infrastructure and urban design
- ? shifts in revenue sources
- ? quality of life
- ? housing
- ? transportation
- ? demographics

- ? land use
- ? education
- ? technology
- ? environmental quality and energy conservation

The use of predefined categories in order to determine the strategic issues facing the city will facilitate the gathering and filtering of data and help in the building of necessary consensus. The focus, however, should always be kept on the critical issues for which precise statements of objectives and actions can be made and for which creative approaches can be developed.

3.5 Determination of a Common Vision for the Future and Critical Success Factors

Strategic planning requires that a clear and common vision of the city's future be established. A wide range of viewpoints should be incorporated into the process in order to effect real choice. Widespread participation not only helps the planning process to work more smoothly, it also provides the only insurance that community preferences will be considered in the many choices made by individuals about where they live and work.

The common vision to be developed should provide the specific images of places and land use patterns that are positive and acceptable to the community. The probability that the city will experience the quality of growth it desires will improve as the vision of the plan to be followed becomes clearer and more understandable to a greater number of citizens. One common tool that is often used to development this vision is a City Uniqueness Plan. This analysis and the resulting maps include components for natural, cultural and visual systems.

The purpose in analyzing natural systems will be to understand the basic aspects of the natural environment which have the greatest effect on town character. Cultural systems which affect town character can include:

- ? historic phases of town growth and changes in land use;
- ? existing public and quasi-public infrastructure;
- ? existing land use;
- ? existing zoning;
- ? new development proposals;
- ? own organization and shape;
- ? activities and behavior streams; and
- ? public areas.

Visual systems result from human interaction with the landscape. They too are important in shaping and understanding a city's image or character. Composite maps will be made by overlaying the various maps of these elements. Final composite maps will be made to indicate the town's uniqueness and the basic directions in which future city growth and development should take place.

3.6 Setting of Goals and Development of Strategies

Strategies are general approaches used by organizations in achieving their objectives and in resolving critical issues. The results of goal setting and strategy development provide the general policy directions on which to base detailed planning and management decisions over a multi-year period. Specific goals, objectives and strategies related to the development of a city can be elaborated and target figures established once a common vision of the city's future has been outlined.

Potential criteria for evaluating alternative strategies would include:

- ? public acceptance;
- ? financing;
- ? capital expenditures;
- ? long-term impact;
- ? staffing requirements;
- ? compatibility with community vision;
- ? relevance to strategic issues;
- ? cost effectiveness;
- ? flexibility;
- ? timing;
- ? client or user impact; and
- ? coordination/integration with other services and programs

3.7 Development and Adoption of an Action Plan

The resulting Action Plan should respond to a broad array of policy issues and should include practical policy and program strategies that are able to address the issues. Key focal points in the Action Plan should address:

- ? employment and economic development;
- ? population and housing;
- ? general development; and
- ? quality of life.

Activities in the Action Plan can involve: measures to strengthen and continue the planning process; developing and administering regulations; planning public investment; organizing agencies; enacting and implementing legislation; and using incentives and/or disincentives to guide urban growth and development. The Action Plan should be operational and precise in specifying budgets, scheduling activities, assigning responsibilities and quantifying the desired results. The private sector should be involved to these plans to the maximum degree.

The success of the strategic planning approach can be substantially increased when it concentrates not only on policies, tools and strategies but on relating them to a capital investment program. By linking these elements closely together, the means to guide land development become more tangible and real. The Action Plan should include cost estimates for each recommended strategy and a

schedule of priorities to be addressed within short, medium and long term time frames (i.e. within 5, 10 and 20 years).

Cost of Service Studies, Fiscal Impact Analysis, Capital Improvement Programming and Long Range Financial Planning are some of the operational planning instruments which can be called upon to make sure that the Plan is practical and useful. Descriptions of some of these instruments have been included in the readings.

Within this context, the integration of strategic planning and operational decision making through action planning should be perceived not as isolated occurrences, but as an ongoing responsibility of those who are involved. The process is used to open up lines of communication and to transform the current planning process from a reactive one to a proactive one. Continuous monitoring is required in order to provide the necessary feedback to the process.

4 Potential Land Oriented Tools that Can be Incorporated Into the Action Planning Process

Land oriented tools which the city might use to encourage or discourage development can be described as follows:

Examples of Tools Which Act as Incentives for Land Supply

- ? land disposition
- ? land rights
- ? land exchange with the private sector
- ? linkage
- ? land sharing
- ? subdivisions regulations
- ? land registration.

These seven tools appear to be the most appropriate in situations where the city is currently underdeveloped or where there is a significant amount of informal housing which the government wants to “regularize”.

All of these tools are designed to make more land available, although the land exchange and linkage options require the government to convey valuable urban land to a private developers in exchange for an agreement to commit some resources in underdeveloped areas. This approach is used in the United States, for example, to provide low income shelter outside of the city center.

Examples of Tools Which Act as Disincentives for Land Supply

- ? land reservation
- ? parks/open space
- ? environmental zones

- ? large lot zoning
- ? floor-area-ratio limit
- ? maximum density ceilings

These seven tools can be the most useful in situations where the city wants to limit density or attempt to restrict development in order to protect environmentally valuable land. Many of these environmentally-oriented tools are called “non-structural” solutions for pollution prevention, abatement or control. The non-structural designation derives from the fact that the land alone, rather than infrastructure is the means of addressing the problem at hand.

Examples of Tools Which Are Incentives, Stimulating Demand for Land

- ? land consolidation
- ? land pooling
- ? minimum standards to allow small lot sizes
- ? development bonus.

In some situations the “land supply incentives” may be sufficient to actually mobilize land development. For example, supply side efforts may be ineffective where land costs, location (e.g. the area where the supply is being increased may be less accessible than other alternatives, including unserved informal housing areas, so that people would rather remain where they are, closer to work) or other social, cultural or financial factors including the low incomes of intended beneficiaries are not appropriate to the needs or abilities of potential consumers.

The development bonus approach to increasing the demand for land may be an especially appropriate means of promoting interest in a marginal site, especially when one adjacent to an area with high demand/existing urban development.

Examples of Disincentives to Demand for Land

- ? land registration fee
- ? development permit fees
- ? satellite centers outside of city
- ? industrial deconcentration
- ? aggregate land holding limits

Where demand is high and supply side disincentives are not sufficient by themselves to stop the dynamic growth in certain areas, the government may have to use pricing to secure high compensation for undesirable uses which it cannot stop entirely or devise policy options to redirect the market to other locations. Deconcentrating industry and warehousing outside of an inner ring road would be an example of one of the steps that a city can take to counter the tendency of the land market to seek serviced land in proximity to transport services as a means of reducing expenses.

The differential pricing of permits is also one of the ways to reduce demand for land in some areas of a city and/or to assure that if developers are willing to pay the high price required for a permit, the city will obtain sufficient funds to provide the infrastructure needed to serve the higher density and/or more environmentally risky development. The permit fees could be earmarked for cross-subsidies in targeted low income areas.

5 Infrastructure Planning and Development Tools

Infrastructure related tools which could be used as incentives or disincentives to achieve land development objectives include:

Examples of Tools Which Are Incentives to the Provision of Infrastructure

- ? “anchor” facilities — e.g. university, hospital etc.
- ? interchanges/bus terminal/transit stop
- ? distributor roads
- ? subdivision control
- ? land readjustment

These five tools are based on the proven fact that the location of public infrastructure has a direct and positive influence on the development of nearby land (although the actual “zone of influence” will vary according to the type of facility and the extent of existing development). Regulatory controls over land development, if reasonably applied, can be used to generate infrastructure paid for the private sector.

One of the most important generators of land value is the placement of distributor roads. Road networks, either in advance of development or as a component of a public-private land development project such as land pooling, land readjustment or land consolidation will increase land values.

Examples of Tools Which Are Disincentives to the Provision of Infrastructure

- ? sewage treatment plant/prison/waste disposal site
- ? infrastructure design standard: capacity or size
- ? rights of way to achieve large plot size/low density

Although infrastructure will generally promote development and lead to increased land values, some public buildings or infrastructure will make an area less desirable for other types of land uses. For this reason, it is a disincentive to development. Consequently, it may be possible to use infrastructure to regulate development as well as using it as an incentive to promote development.

In addition to the physical location of infrastructure, it is also possible to strategically employ infrastructure standards — either with respect to infrastructure design or use — as a land development disincentive. The intentional down-sizing of infrastructure will often dictate the extent of development. For example, a 20 meter wide road will be a much more intensive development

generator that an eight meter wide road. By the same token, the sizing of rights of way (ROW) can also have a direct bearing on lot sizes and the scale of development.

Examples of Tools Which Are Incentives for Infrastructure Denial

- ? “leap frog” development prohibitions
- ? unit cost ceilings for infrastructure
- ? site standards: permits tied to density/land use

Not only will infrastructure provision either promote or retard growth, but the denial of infrastructure can have the same effect when employed strategically for land development purposes. The provision of infrastructure should follow a logical pattern of extension from the existing networks. Fringe area developments, of whatever quality, outside this planned pattern of future provision of infrastructure, will only be provided with infrastructure when the unit costs of network expansion to serve their area are within an agreed range. This affordability standard will usually occur only after development has “filled in” the area which has been leap-frogged. The incentive aspect of denial is to motivate development in an orderly manner, not to limit development per se. Therefore, in an active market, the denial of infrastructure will re-direct growth not suppress it.

Examples of Tools Which Are Infrastructure Denial Disincentives

- ? conservation/land reservation
- ? areas of critical concern
- ? development standards
- ? connection restrictions

These tools are designed for locations where the land development objective is either to absolutely restrict growth or to regulate the type of development so that there are no adverse effects from it. The tools which deny infrastructure in this manner are often a more effective disincentive to development than land use regulations. One of the tools, land reservation, may be implemented either by land acquisition or by strict prohibition of either formal or informal development on designated land.

6 Financial Planning and Management Tools

Financial tools can influence land development by using taxes or fees to either recover the direct costs of development from beneficiaries or use long-term debt as a means of allocating some of the current cost to future beneficiaries. It may also be possible to use the annual development budget as a way of allocating/denying development resources.

Financing related tools which could be used as incentives or disincentives to achieve land development objectives include:

Examples of Finance Tools Which Capitalize on Development

- ? special assessments
- ? permit fees
- ? property values/assessments
- ? full cost recovery by user charges
- ? vacant land taxes
- ? property tax administration/collections

These six tools are “incentives” for revenue generation in locations where there are either high levels of economic activity, or potential for promoting more intensive use for under-utilized land. These tools capitalize on dynamic conditions such as high value land development. The objective of the tools is to maximize a city’s financial benefits from land development.

Special assessments are used to recover infrastructure costs from direct beneficiaries, especially industrial sites. The most important requirement for the effective use of this tool is to establish a boundary within which the influence of development will occur (the special assessment area) and to prepare and apply an equitable cost-sharing formula among all properties within the special assessment area. The factors found in the formula could include: 1) the value of the land and buildings; 2) land area; 3) road frontage and 4) use. A carefully prepared formula will assure that the industrial site will bear the largest share of the cost of infrastructure construction or replacement. The city could assume none of the cost, or alternatively could pay the non-industrial share of the cost of infrastructure. The best time to apply the special assessment principle is before any permits are granted.

While some of these financing incentives may require national government approval, others may be implemented by changes in local administrative procedure. While new land would automatically trigger these opportunity oriented approaches, it may also be possible to concentrate revaluation attention on high value areas in order to maximize local receipts.

Examples of Financial Tools Which Are Development Disincentives

- ? impact fees
- ? differential tax rates/assessments based on use
- ? industrial cost recovery fee
- ? “un-subsidized” rental charges from city buildings
- ? special tax district

Land development disincentives with a relatively positive effect on revenue generation can be used in locations where the city wants to establish a “price” for land development. The logic of special pricing mechanisms is that the cost of infrastructure provision may be higher in already developed high density areas, and the effects of certain types of activity require a higher level of compensation than can be obtained through conventional taxes and permits.

The principal targets for these disincentive type tools are commercial and industrial developments. Impact fees are designed to require all new entrants into the existing system of infrastructure (water, sewers, lights, roads etc.) to pay a price for admission. Since the marginal increase in the use of existing infrastructure will degrade its value to current users, the new entrant must reimburse the existing “owners” for the privilege of using existing facilities.

It is assumed that these tools will be disincentives to land development except for those willing to pay the additional burden. This is not a punitive approach to taxation, but rather a means of assuring that the city is fairly compensated for the true economic costs of development by a certain class of users.

Examples of Finance Allocation Tools Which Increase Development

- ? long term debt for public infrastructure including non-revenue generating facilities
- ? stand-by fund to capitalize on development opportunities
- ? case reserve ceilings for public enterprise reinvestment standards;
- ? short-term loans for special assessments

Sometimes spending money — in specified ways — can have the effect of creating more revenue (or more assets such as infrastructure) in the long term. One of the best ways of responding to dynamic growth opportunities is to spread the cost of providing supporting infrastructure over a future time period so that the current cost impacts on existing taxpayers are minimized while the current economic benefits are maximized. Allocating long term debt, therefore, is a very important financial incentive which should be used extensively PROVIDED that other tools are also employed to recover sufficient revenue for debt service payments. Failure to meet revenue targets will have a direct negative effect on a city’s ability to continue to grow since debt service payments can not be deferred. Improved tax collections must go hand-in-hand with higher levels of debt.

Since special assessments could be an important revenue raising incentive for the city, it should also provide for a means of facilitating the payment of the assessment by affected taxpayers. Short term loans (five years) to finance the special assessment may need to be offered as a way of lessening the direct impact on individuals. Debt, once again, is an effective positive policy instrument/incentive for allocating the costs of development.

Examples of Finance Allocation Tools Which Limit Development

- ? development funds rationing
- ? investment reductions in favor of maintenance

In some locations the city may want to sustain a certain level and quality of development but not encourage or support new growth. This can be accomplished through a development strategy which emphasizes maintenance of existing facilities and small incremental investments rather than the provision of any infrastructure which could spur new development.

These disincentives will limit growth provided that other land development policies and fiscal procedures work in concert with them to produce a coherent strategy. For example, the acquisition of available land for parks and open space should perhaps be combined with these financial disincentives to reinforce the main land development objectives.

Example of Core and Working Group.....

Outline of a Strategic.....

Figure 13: Land Management Tools

Annex 5: ***Gmina* Land Purchase and Sale Program⁸**

Jerry Erbach

1 Program Description and Objectives

A City Development Strategy approved by city council resolution on December 5, 1995 cited housing development as one of the city's most urgent priorities.

The availability of serviced residential land for housing development is the very first requirement for increasing housing production by all types of developers. Affordable, serviced plots are particularly important to the growing number of individual households who want to build their own home.

The city currently owns about 10,000 communal units or about 20 percent of the total housing stock. The demands for new housing to meet the needs of new households and to replace substandard units are likely to increase substantially in the near future as market forces come into play, household incomes rise, and people's housing aspirations change.

The city's housing policy cites the need for about 900 new housing units to be built each year until the year 2015. This level of production is considered necessary to respond to newly emerging housing needs and to eliminate the current "deficit" due to poor housing conditions. The housing policy has set a target of approximately 500 units to be built per year during the 1996-2000 period.

The availability of serviced land affordable to a wide range of households is one of the very first requirements to meeting the city's housing objectives. All of these housing sites should have access to basic infrastructure and municipal services. The Housing Strategy estimated that roughly 90,000 square meters (nine hectares) of new residential land will need to be developed each year for the next four years. This annual requirement can be broken down by type of housing developer, as shown in the following table.

⁸ This analysis was prepared by Jerry Erbach (PADCO) at the request of the request of Gmina Bielsko Biala, with funding by USAID.

Demand for Serviced Land by Type of Construction per Year

Type of construction	# of hectares
Cooperative housing (single- and multi-family units)	0.75
Private sector housing (mainly single-family houses)	6.5
Communal housing (multi-family units)	1.0
TBS rental housing	0.35
TBS housing under the revolving fund	0.4

This component of the city's 1997-2000 non-budgetary Housing Investment Program involves the strategic purchase and sale of land by the city. Successful implementation of this component will contribute to the establishment of a flexible, consumer-oriented approach to land management that is based on rapid and transparent administrative processes and will lead to the orderly and integrated development of residential land markets throughout the city. The purchase and sale of land by the city will focus on activating local land markets, increasing efficiency and equity in the provision of affordable land for housing to all income groups, and targeting specific land resources directly to low- and moderate-income households.

The basic objectives of this program will be to:

- ? outline an action investment plan for land acquisition and sale to be included in the city's Housing Investment Program for the next four years;
- ? establish a sustainable land acquisition and development strategy for the city based on optimizing the use of available resources and opportunities;
- ? stimulate the provision of land for residential development to benefit all income groups;
- ? strengthen local institutional capacities to implement a sustainable land management and development approach;
- ? leverage city resources to mobilize private sector investment in the provision of serviced land and housing for low and moderate income groups;
- ? establish public-private sector partnerships that will reduce delays, risks, and costs to private sector housing producers and provide greater opportunities for the city to achieve its housing objectives;
- ? provide small-sized plots for low- and moderate-income households wishing to build affordable housing units using simple, traditional building technologies; and
- ? provide land for apartment buildings to be financed through the TBS program.

2 Program Implementation

The proposed program will have three major components: 1) the purchase of unserviced, residential land, 2) the sale of serviced land, and 3) the implementation of public-private sector partnerships for the development of residential land.

The amounts of funds earmarked for land purchase by the city under this program have been set at PLN 500,000 for 1997 and PLN 300,000 for 1998. The sale of centrally located, city-owned sites at market prices will generate revenues that will enable the city to establish a revolving fund for residential land purchase and servicing that will support the implementation of its recently adopted housing policies.

Two basic approaches to the city's purchase of unserviced land are envisaged under this program. They include the purchase of unserviced, residential land that has been reclaimed by private owners who now want to sell the land back to the city at below-market prices and the purchase of low-cost but suitably located land for residential development to benefit low- and moderate-income families.

Three different approaches are envisaged for the sale of city land: the sale of centrally located, infill sites at maximum prices; the wholesaling of large, partially serviced plots to various types of housing developers; and the sale of small-sized plots to individual households for owner-builder construction. An example of a project involving the sale of small-sized plots is shown in the following table.

Placeholder for Table 1

The third land management component of this program involves the development and implementation of various forms of public-private sector partnerships and land re-parcellation. The implementation of public-private sector partnerships will increase the city's ability to act as a catalyst in promoting desired residential development. Partnership arrangements will need to be determined by the city and participating landowners through negotiations. Various forms of partnership could be pursued that might include:

- ? requiring landowners to pay the actual costs of infrastructure provided to their sites once these areas have been subdivided and are in the process of being sold; and
- ? implementing a traditional re-parcellation approach that determines the value of unserved land at the time of partnership, multiplies this value by the size of existing parcels to establish a total "credit" for each landowner, and then divides this credit by the value of the serviced land to determine the amount of re-subdivided land to which the landowner would be entitled; the city would then be able to sell the remainder of the land to help pay for the cost of infrastructure.

The various forms of partnership arrangements should be formulated to encourage broad private sector participation, reduce risks and costs to the different parties, and allow land markets to operate in a freer manner. Joint development can be an effective mechanism for the city to induce the private sector to implement its land development goals without having to expend a large amount of its own limited capital.

3 Implementation Responsibilities

The city should establish an informal Land Working Group to oversee and monitor the implementation of this program and the general effectiveness of the city's evolving approach to residential land management. This working group should be directed by the city's first vice-mayor and include permanent representatives from the Land Development Department, Urban Management Department, and Economic Policy Department. Sub-units within each of these major departments will have specific responsibilities related to the management and development of residential land and to the land purchase and sale program. The City Development Office, the Road Management Department, and the utility companies for water and wastewater and heating distribution will participate in the working group through their existing relationships with the three main departments in the working group.

The Land Working Group should meet at least once every quarter to discuss the status of the city's land management program and to prepare necessary documentation for the Executive Committee and/or City Council. Group meetings will also provide a means to maintain close communication and coordination among all parties involved in the program, without having to make any major changes in the city's administrative organization.

4 Anticipated Time Frame

This land purchase, servicing, and sale program should be designed to be financially sustainable and partly self-financing over the next four years. Program implementation will consist of the following.

- ? The sale of the centrally located, Michalowicsa site should take place as early in the program as possible. The revenue from the sale of this site is needed to reduce the level of borrowing during the first two years of the program, when projects are just getting under way.
- ? The purchase of a significant amount of land within the Kamienica site should be completed within the first two years of the program. The *gmina* should also develop a partnership approach to include those landowners in the area who want to keep their land but are willing to work with the city in developing the area.
- ? The auction of developer-oriented sites in Kamienica should begin in the second year of the program. Some of these sites could be auctioned prior to the installation of infrastructure in order to confirm that land sales will in fact cover the cost of infrastructure and land purchases.
- ? The purchase of a three-hectare site for the development of low-cost plots should be completed within the first 18 months of the program. The servicing and marketing of this site should be implemented at the same time. Advance payments from plot purchasers will help to improve the cash flow for this activity and for the overall program.
- ? The purchase of land in the Wapienica site should be completed by end of the third year of the program.
- ? Roughly one-half of the infrastructure required for the selected sites should be in place by the end of the third year of the program. All of the infrastructure should be completed by the end of the fourth.

5 Anticipated Social and Economic Benefits

A number of benefits can be expected from the successful implementation of the land purchase and sale program.

Positive social impacts would include the following:

- ? creation of viable neighborhoods;
- ? increase in the social value of private property;
- ? greater satisfaction with housing and neighborhood conditions;
- ? greater pride and participation in the community; and
- ? greater reliance on negotiation and democratic processes in city development.

Positive economic impacts would include the following:

- ? increase in private property values;
- ? increase in long-term city revenues from property related fees and taxes;
- ? creation of employment opportunities in small-scale construction; and
- ? creation of new small-scale enterprises and commercial activity.

The second Table shows the program's economic multiplier effects on private sector housing investment and employment. Based on a ratio between built area and land of 0.6, an average cost of

construction of PLN 1000 per square meter, a 14 percent share of construction costs for labor, and an average worker's salary of PLN 600 per month, the results show:

- ? a total private sector investment of PLN 111,806,000 for the construction of housing on land developed by the program; and
- ? a total of 2,174 person-years of work (or 545 jobs over the four-year period) generated by this construction; this result does not include jobs related to the provision of infrastructure that would add significantly to the number person-years of work and jobs created by the program.

6 Financial Feasibility

The financial feasibility analysis assumes that all available land within the first three sites will be developed and sold by the end of the fourth year. This perspective is largely due to the fact that the period of analysis has been limited to the first four years of the program. In reality, additional land will be bought, serviced, and sold as part of an ongoing process.

A relatively simple and straightforward analysis has been developed to review the financial feasibility of the combined programs for land purchase/sale and infrastructure. The two programs are analyzed together because: 1) the provision of residential infrastructure has a significant impact on the market value and sales price of the land and 2) the sale of land at market prices will provide the major mechanism for the recovery of infrastructure costs. The analysis covers the four-year period from 1997 through 2000.

Financial resources for the combined programs include funds from the loan, revenues from the sale of selected, city-owned infill plots, and revenues from the sale of serviced residential land developed through the program. Long-term city revenues from taxes, utility payments, and other fees and charges have not been considered in the analysis at this time. Program expenditures in the analysis include the costs of buying unserviced land, the costs of providing infrastructure, and the city's repayment of the loan. Barring any major delay or difficulty, it should be possible to achieve the results indicated in the spreadsheet on page 34.

Funds from the line of credit to be used for land purchase and infrastructure development have been defined in the Housing Investment Program. Revenues from residential land sales could also be used to finance additional land purchase and infrastructure to the extent that these funds become available and are not used to repay the credit line. Loan repayments have been calculated to cover the amount of loan funds used for the two programs. Additional program costs will include marketing and transaction costs (e.g. surveys, bids, competitions, etc.), staff, and logistic support. These indirect costs are assumed to be financed through the city budget.

The accompanying Table presents a simple feasibility analysis of the combined land purchase and infrastructure programs. It outlines a basic scenario for program implementation and its cash flow that should ensure the program's financial feasibility. The yearly indications for land purchase, infrastructure provision, and sale of land should be viewed as specific targets to be achieved to maintain this feasibility.

Financial resources that are used to initiate the land purchase program include:

- ? an injection of PLN 2,800,000 from the loan for both land purchase and infrastructure; and
- ? an estimated PLN 448,000 from the sale of two centrally located, city-owned sites at market prices.

Placeholder for Table 2

The sale of city-bought and -serviced residential land, both as large parcels auctioned to developers and as small-sized plots offered to individual households, is expected to generate an additional PLN 12,480,000 based on current land prices in the areas of program activity. The combined total for resources and revenues related to the program is expected to be PLN 15,728,000.

Expenditures under the proposed scenario will include the purchase and servicing of land within well-defined areas in Wapienica and Kamienica, the purchase and servicing of a three-hectare low-cost site in the northern part of the city, and repayment of loan funds related to land purchase and infrastructure. Total land purchase costs for all three sites are estimated to be around PLN 2,320,000, while infrastructure costs for the same sites are estimated to be around PLN 9,000,000. These infrastructure costs do not include the servicing of fully owned private land within the proposed sites. The repayment of loan funds (both interest and all of the principal) related to this part of the program will be around PLN 3,660,000 for the four-year period.

The cash flow for the project shown on page 34 has been designed to take advantage of the anticipated interest rate decreases over the next four years. Both interest and full amount of principal will be paid at the end of each year. A new borrowing will be made at the beginning of the subsequent year for any deficit and the scheduled amount. While this approach may increase some of the transaction costs, the essential act of “refinancing” the loan on an annual basis will reduce the amount of interest to be paid and increase the surplus or amount of “profit” at the end of the four-year period.

The potential rate of return for the combined program is 51 percent (see the first table).

The combined land purchase and infrastructure program will generate a small profit of some PLN 748,000 over the first four years of the program. This profit would normally be used to purchase additional land. It is 6 percent of the total sales and 167 percent of the city’s equity in the program, which is taken to be the revenues from the sale of the two infill properties.

The financial internal rate of return has been calculated for the purchase/servicing/sale of residential land under the program. The cash flow used in this analysis does not include loan funds or repayments or the city’s equity contribution to the program. A rate of return of 51 percent is obtained.

7 Program Risks

There are several major risks that could jeopardize the success of this program. The most obvious risk is that the city will not be able to purchase, service, and sell the land as planned, either in terms of the amount of land that can be developed and sold or in the timing of these sales. Private land owners may not be willing to sell their land to the city or may not be interested in participating with the city in any form of joint land development. The lack of participation by private landowners could effectively block the development and sale of adjacent, city-owned land. There is also the risk that new or additional claims will be made on land that currently belongs to the city or is in the process of being purchased.

The very limited understanding of market-driven housing demand is another potential risk to the program. Many people, in fact, are still waiting to obtain a subsidized housing unit from the *gmina*. The relatively small size of the city's housing market encourages a high degree of caution in initiating new developments. All major housing providers can suffer serious financial losses if they miscalculate the housing market and/or the demand for different types of units. The result may be an initial lack of developer interest or capacity to purchase blocks of land and/or implement the program according to the proposed timetable.

The general lack of experience during project implementation presents another form of risk for private developers who cannot afford major cost overruns due to unexpected delays in the approval process, dramatic changes in the price of building materials, and so on.

C. Sandomierz Beyond 1998: Expected Changes in Land Management

The following key land management changes are expected to occur in Sandomierz after 1998:

- ? acquisition of new land by the City; and
- ? increasing the City's area by change of administrative boundaries.

1 Acquisition of Land by the City After 1998

Article 7.1.1 of Self-government Act obligates local governments to undertake land management and conduct related activities such as zoning and environmental protection. The City should facilitate the process of establishing conditions conducive to capital investments, including building, and especially housing sites and services. Local authorities are required to prepare planning studies for new capital investment projects, as well as to identify suitable land for development. These obligations entail huge costs. For example, in the case of Sandomierz, purchase of land for roads only (Fig. 9, and Table 3 neighborhoods I, II, III, IV and V) accounted for roughly 17 percent of annual budget expenditures in 1997. The City may recover capital costs of new roads and service facilities only from adjacency fees (if they are instituted).

Adjacency Fees

Fees determined by local authorities, charged to real estate owners and perpetual usufruct holders, including those who paid for the entire period of perpetual usufruct right. At present, these fees are the only form of participation in capital costs incurred by local authority in connection with development of plans, land and municipal facilities. Adjacency fees are calculated in proportion to the increase in value of the real estate and may account for 50 percent of this increase. The City Council introduces the charges and determines their amount.

The example of Sandomierz, where new design works have been initiated recently, emphasizes the importance of short and long-term capital budgeting and financial planning. In other words, it should be well known in advance how many new residential plots will be connected to services financed from the City budget.

The City itself may not conduct any business activities. Only when a property is leased or perpetual usufruct is granted, municipal real estate generates income to City's budget.

The sale of real estate generates other benefits in form of property tax and charges, and business taxes. As a consequence, it is expected that municipal land and buildings located in attractive central areas, which are likely to generate profits to users and rental/tax income to the City, will continue to be privatized or leased. On the other hand, the amount of municipally-owned real estate located in the outskirts of Sandomierz is expected to increase.

2 Location and Functions of New Land

As the number of municipal real estate assets in the Old Town area and its immediate neighborhood decreased between 1992 and 1997, it is expected that from 1998 onwards, the City will increase its assets through acquiring properties located in outlying areas.

The stock will include:

- ? land for multi-family housing development in the outskirts of the city (in the immediate neighborhood of and within existing multi-family blocks). Like in other small and medium-sized towns, these account for a fraction of all residential buildings in Sandomierz.
- ? increased amount of municipal property through the acquisition of land for the construction of new or widening of existing municipal roads. In 1998, the City will continue to purchase land for the construction of new roads in areas of single-family housing development. New street network and scheduled subdivision are expected to improve land use patterns in the neighborhood of existing main service lines. Single-family housing is today the prevailing and preferred type of housing development in small and medium-sized towns.
- ? property transfer to the City by agreement, e.g. transfer of land for housing development in exchange for waiving payments due to the City.
- ? increased area of municipal property adjacent to strategic areas (recommended).

3 Impact of Zoning Plan Provisions on Property Value.

The market value of property is highly dependent on its purpose envisaged by the local zoning plan. Other important factors are: location, available services, size, shape and site/neighborhood development patterns. However, a number of cases in Sandomierz have indicated that plan revision, connected with the preparation of land for development, is the most important factor causing dramatic upward price movement. Sometimes, the price of re-zoned land may increase several times (see Annex). The illustrative valuation of real property no 315/3, area of 2923 sq. m in Sandomierz - Mokoszyn Neighborhood provides evidence of a 10-fold increase in price for 1 sq. m of land (from PLN 1.20 to PLN 12.45 per 1 sq. m). This happened as a result of re-zoning of land from agricultural to residential use. The property is located in the vicinity of a single-family development, as presented in a detail below. Also the price of land within the planned housing development is expected to increase.

In market economies, property prices tend to increase for different reasons. In Poland there is an acute need for fiscal mechanisms that would enable cities to recovery capital costs incurred by them. Until the enactment of such national laws, the City should consider interim measures for generating revenue to cover infrastructure costs. Today local authorities are vested with the right to impose additional fees and charges on property owners/users. However, French experience over the past twenty years suggests that allocation of service charges is a difficult task.

TAXATION OF DEVELOPMENT SCHEMES

Who should pay for the cost of infrastructure? Either, the taxpayers who support the public authority that has carried out the works; or the owners of land or buildings who benefit from the increase in value resulting from the new services; or else, the developers and builders, who will pass on the charge to the future occupiers.

This issue has been on the agenda for the last twenty-five years. Various schemes have been devised to charge the price of the new infrastructure to the owners benefiting from them, but none has ever succeeded. A portion of the costs has been attributed to the prospective occupiers. But in France, the infrastructure costs are still almost entirely supported by public funds and sometimes even paid for twice: this has happened, when the announcement of new urban development scheme and the provision of some services have increased the land value so that the public authorities have to purchase land for schools or open spaces at an inflated price.

This problem is not a new one. The Act of 16 September 1807 provided for a tax to be paid by the landowners benefiting from a "considerable increase in value" as a result of public works. But curiously, this law has only been implemented in Alsace; this eastern region, part of Germany after 1870 and reunited with France in 1918, kept some of the laws that were formerly applied there, and this "riparian tax" (taxe de riveraineté) is one of them; it is worded in rather obsolete terms, but it allows the municipalities building new roads to charge the owners of land adjacent to these for the cost of the works, in proportion to the length of the frontage.

"Land Taxation" Joseph Comby in: "Land Policy in France 1945-1990" ed. V. Renard J. Comby, Paris, L'ADEF 1990.

4 Purchase of Land for New Roads by the City

This is one of the City's obligations following approval of local zoning schemes. Currently, the City is preparing local zoning plans for five housing developments located in rapidly developing left-bank Sandomierz (Fig. 9 and 10) of the total area of 158 ha. The area of planned roads is 17.7 ha.

Figure 10

The land value of the road corridors is estimated at PLN 3,072,600. This represents about 16.01 percent of City's capital budget for 1997. Moreover, the City will at least pay for the infrastructure development (see Table 3).

Table 3
Roads in Planned Housing Estates
(land to be purchased by the City)

No. of District on the Map (Fig.9)	District Area in hectares	Area of Planned Roads (in ha)	% of Total District Area	Assessed Land Value (in PLN)
I	37.78	3.40	9	612 000
II	25.42	3.05	12	549 000
III	27.33	0.82	3	147 600
IV	28.57	4.00	14	720 000
V	38.67	5.80	15	1 044 000
Total	157.77	17.07		3 072 600

The introduction of adjacency fees is the only means to recover some of the costs. Levying ad valorem taxes on plot owners will only be possible following the enactment of Cadastral Tax Law in Poland.

In addition to its obligation to purchase land for new roads, the City will have to cover most of the costs connected with providing services to the areas of the planned development, which will constitute a heavy burden to the City's budget.

At this initial stage of scheme-making, it is recommended that an estimate of financial burden to the City be prepared, while attempting to adopt spatial solutions and then tax instruments that will enable the City to recover a specific portion of its capital outlays.

In practice, it is recommended that Sandomierz authorities follow a process whereby land is consolidated and then sub-divided by developers. The existing system fails to ensure that new grid cells are "filled in" with buildings, since this depends on individual decisions of land owners. On the other hand, the City has to purchase land for roads, to build roads and contribute to infrastructure development (up to 80 percent of the cost of infrastructure).

The area of available municipal land will inevitably shrink as an increasing share of "infrastructure" land will be needed to stimulate growth and to ensure a more efficient use of land within administrative boundaries of the city.

5 New Purchased Land: A Local Economic Growth Catalyst

The purchase of land for road construction enhances the city's development potential by enabling a more intensive use of serviced areas. However, the municipality will achieve full benefits once the land is developed and developers and end-users pay to the budget fees and charges that are relatively in proportion to incurred capital costs.

Therefore, two key requirements should be met:

- ? ensuring that land is used as planned, i.e. that the density of the development is consistent with the plan; and
- ? establishing fees and charges at a level which ensures recovery of all or part of costs incurred by the City.

Adjacency fees are one of the measures for ensuring that land is developed according to planning and zoning schemes. In the first year following the building-up time, the charges may represent 10 percent of the land price and may be subject to an increase of 10 percent in every subsequent year. This may prove an effective tool, provided that land value is assessed with reasonable accuracy. Additional revenues, which the City could obtain by making full use of its power to levy property taxes and fees, would greatly offset the cost of hiring extra staff who would be responsible for computing, levying and collecting taxes. The management of local development should more actively use physical planning tools in order to achieve social and economic goals.

5.1 Tax Burden and Residents' Ability to Pay

It is widely known that many tenants of multi-family buildings have not paid their rents for years. In the case of smaller towns, this observation also applies to single-family houses.

Resistance to Higher Land Charges

In 1997 the City imposed a new higher fee for perpetual usufruct of municipal real estates. The fee was increased for the first time in four years and in some cases the new amount represented as much as a 400 percent increase.

Residents of all neighborhoods appealed this decision, in spite of tax relief granted to the retired and all those with incomes below the national average wage.

So far, Sandomierz authorities have not decided on appeals. Interviews indicate that it is unlikely that the city will recover the amounts due from local residents.

It should be noted, however, that local authorities in Sandomierz know by experience how difficult it is to collect taxes and payments from owners of single-family houses. A several year delay in instituting higher tax rates indexed for inflation demonstrates the inefficiency of the city administration and led to a major drop in the share of property tax in local revenues. (Table 4)

Table 4

In order to avoid similar problems in the future the City should determine the amount due and prepare an installment payment plan. While it is unlikely to achieve good results in existing built-up areas, any failure to apply this approach in a planned housing development would be a serious problem, since an economic use of land is a statutory obligation of local authorities.

6 New Plan of Land Subdivision

A section of new housing development design illustrates the current approach to planning additional streets and access roads (see Fig. 10). This Study is not intended to evaluate any merits of spatial layout. It is likely that new development will duplicate various mutations of existing architectural standards.

Therefore, the City, expected by statute to care for “spatial order”, should ensure home designs which confirm to national building codes and meet density standards. This refers to the number of floors, shapes of roofs, principles of designing buildings’ facades, etc.

Furthermore, we recommend the principles of actions aimed at increasing residential land use intensity in areas of typical agricultural ownership structure. Working-out a new approach that would encourage secondary sub-division of previously assembled land is a pre-condition for small and medium-sized Polish towns. This results from the fact that due to divisions of land made over generations, the parcels are often very narrow, and thus access roads going along such stripes use much of the land; hence new arrangement and new sub-division are necessary. The example of Sandomierz indicates that the City’s expenses for purchase of land for new roads account for about 12 percent of the City’s annual capital budget. Any allocation of considerable funds should be subject to a thorough study in order to ensure their efficient use, in particular considering the long life time of street systems and relatively high maintenance costs incurred by the City.

7 Recommended Solutions

Market economies use different methods within local legislative framework to address actual needs. A common approach consists of purchase of land for development and refunding the sums due to the owners in money or land on project completion.

The advantages of this approach over methods currently used in Poland are:

- ? residential density adjusted to location requirements;
- ? more interesting architectural and urban planning solutions;
- ? allocation of costs connected with implementation of local social and recreation facilities to all land owners.

Local authorities may encounter problems resulting from the lack of adequately qualified staff capable of overall project management and absence of model solutions tested in Polish small and medium-sized cities.

Standard single-family development projects implemented by professional developers have become increasingly popular in large Polish cities. In small towns, however, such projects have been

implemented infrequently, while local authorities focus primarily on construction of low-cost residential units in multi-family buildings.

The City may use its existing land management powers and infrastructure service subsidies to encourage creation of new local development firms or to attract existing developers from other Polish cities.

It is recommended that a permanent task force be established to work toward this goal. The Task Force should submit to the City Council draft local tax proposals with supporting documents on local tax rates and assessment zones. Information gathering and development of property tax/charges policy may help the City to generate significant revenues. The share of property tax in total budget revenues has been declining for two years. In 1995 it accounted for 21.9 percent of budget revenues, while in 1996 — 17 percent (see Table 5). The draft 1997 budget envisages a 17 percent level as well. The recommended Task Force should analyze these trends and submit related conclusions and recommendation to Sandomierz authorities.

Table 5
Employment Structure in Sandomierz in 1995-1996

	1995	% of Total	1996	% of Total
Farming, hunting, forestry, fishing	65	0.73	60	0.67
Mining	53	0.60	49	0.55
Manufacturing	2 230	25.13	2 092	23.51
Provision of electricity, gas, and water	541	6.10	547	6.15
Construction	767	8.64	695	7.81
Commerce and repairs	739	8.33	755	8.48
Hotels and restaurants	36	0.41	18	0.20
Transportation, storage, and communication	769	8.66	823	9.25
Financial services	268	3.02	300	3.37
Property and firms servicing	272	3.06	286	3.21
Public Administration and National Defense	391	4.41	415	4.66
Education	812	9.15	929	10.44
Health Care and Welfare	1 744	19.65	1 746	19.62
Other Services: municipal, social, small business	188	2.12	185	2.08
including women	4 375	49.30	4 364	49.03
TOTAL	8 875		8 900	

Source: Tarnobrzeg Voivodship Statistical Yearbook, Tarnobrzeg 1996.

Setting up a separate unit responsible for taxes assessment and maintenance of property valuation registry should be considered. Taking into account the proportion of property tax in total budget

revenues, it would be advisable to establish such an additional team consisting of one or two employees. The previously mentioned case of a sudden, dramatic increase of perpetual usufruct fees imposed after several years of nominal increases indicates that tax assessments are not conducted on a regular basis. City officials explained that these delays were caused by the lack of institutional capacity and considerable workload of the city staff.

In the past five years much more comprehensive physical planning and land management tasks have been assigned to local authorities. The municipality's statutory rights and obligations are much wider now than before 1992, requiring new organizational structures capable of ensuring services to residents together with adequate execution of the City's regulatory and administrative functions.

D. Increasing the Area of the City

1 Recommendations for Continued Expansion

Proper delineation of administrative boundaries fosters an effective use of real estate. In 1997, the total area of Sandomierz City was 2,880 ha, including 1,800 ha of agricultural land, about 80 ha of water and roughly 1,000 ha of built-up areas with physical and social infrastructure.

Currently, the area is inhabited by 26,985 permanent residents or, including temporary residents, mainly high school and college students, by approximately 29,000 persons.

In 1996, the employment figure for Sandomierz was 8,900 persons (see Table 5), or 33 percent of all city residents.

This indicates that many residents of areas located beyond the City's administrative boundary have jobs in Sandomierz. Both statistical data and on-site surveys confirm that a large number of residents of other municipalities located in the vicinity of Sandomierz work, learn and use services offered by the city.

Considering the scale of this process, Sandomierz authorities decided to annex neighboring villages into the city. The village of Mokoszyn was incorporated in 1992. This decision resulted in higher than before expenditures on welfare in 1996 and 1997, due to the poor material standard of local population.

This experience indicates that Sandomierz authorities should also expand the area of the city by new areas inhabited by more affluent residents, where there are a number of commercial businesses (Chwalki area near Sandomierz). It is also recommended to incorporate areas that can be easily connected to municipal services (water supply, sewerage system, etc.). These areas are highlighted on Fig. 11.

Another reason for incorporation of adjacent areas, apart from their sharing in costs is to create new development prospects for the city.

There is an acute shortage of land suitable for development in Sandomierz, since the following three areas have to be left undeveloped:

- ? protected open space around city's historical zone;
- ? land unsuitable for development in flooded areas within river embankment perimeter;
- ? ravines and steep slopes unsuitable for development -- those within the existing administrative boundary and those to be incorporated in the city.

Natural features limit the growth of the City. Due to the magnitude of these constraints, Sandomierz has been included in the national "Urban Development Barriers" program.

Figure 11

The incorporation of new land requires consent of residents of the areas to be incorporated and the agreement of local authorities. In areas where residents' signatures were collected in 1996 to determine their willingness to join Sandomierz, population has not been satisfied with the progress of work. Amongst possible reasons of dissatisfaction, there were the lack of firm determination on the part of local authorities and poor involvement of residents themselves. If the City really wishes to incorporate new, prospective development areas it should improve administrative procedures and assist local population in meeting complex formal requirements. Local press may support this process by providing reliable information about potential benefits and negative effects of incorporation.

Sandomierz authorities should consider incorporation of new areas. Any further coordinated steps should be made on the basis of a study of potential costs and benefits to the City from incorporation of individual villages. In addition to higher municipal revenues, the study should consider the benefits of increased land supply in Sandomierz. This applies in particular to housing and housing/commercial land, since the limited supply within Sandomierz resulted in highly differentiated plot prices.

Furthermore, it is advisable to expedite the incorporation of Pieprzowe Góry scenic area, currently located in the municipality of Dwikozy, so that the city may develop its "Nature Reserve" as additional tourist attraction with potential benefits to Sandomierz.

The enlargement of the administrative area of Sandomierz is also intended to improve overall management of the city's development areas where low density and single-family houses prevail. This will enable local authorities to establish local zoning schemes of development forms that would foster more economical and efficient solutions in the future. These include in particular consolidation of vacant land and comprehensive project implementation by professional developers.

It is simpler for the City to conduct negotiations on infrastructure cost recovery with a single investor, rather than with dozens of land owners and individual developers.

The need for adequate local zoning schemes is particularly important in the light of the planned changes in property management in Sandomierz. The schemes should be prepared jointly with estimates of related costs, since the approval of the local zoning schemes, which determine street layout and building lot size, entails serious financial consequences to the City. Furthermore, the schemes put City authorities under obligation to purchase land for roads and participate in costs of underground service facilities. The City will incur road maintenance costs for several years to come.

Sandomierz is a city where only limited land is available for construction. The following three areas should be left undeveloped:

- ? protected open space around city's historical zone;
- ? land unsuitable for development in flooded areas within river embankment perimeter;
- ? ravines and steep slopes unsuitable for development; both those within existing administrative boundary and those to be incorporated to the City.

The recommended Task Force should also analyze economic aspects of the incorporation of new areas into the city limits.

The U.S. Practice

American cities tend to annex new areas to generate additional revenues and attract more businesses. The following examples come from large American cities (population over 1 million), therefore any direct comparisons are impossible. However, general arguments for and against the incorporation of neighboring areas are relevant. Incorporation of new land is a complex process, and the cities cited here have had taken years to prepare. The commitment shown by local governments indicates the importance of annexation to local development.

The Indianapolis Case: Fourteen years ago the city incorporated into so-called "Greater Indianapolis" new land of acreage almost ten times exceeding the previous area of the city. Despite the initial controversy, today this decision is widely recognized as sound and beneficial. This was motivated by scattered layout of the city, so different from that prevailing in Polish cities. In particular, more affluent residents of Indianapolis tend to live in outlying districts of the city, while working and using services in the city center. The desire to benefit from real estate tax paid by these residents was one of the main reasons behind the decision to incorporate this huge area. Education services are the most widely used and costly services which represent a significant cost item in City's budget. Business tax is another important argument for incorporation of new areas. "Greater Indianapolis" included 100 existing industrial parks and the planned sites of several tens of such new commercial/industrial or storage/office centers. All the commercial centers located at a remote highway ring of Indianapolis are now within the city boundaries. Other reasons behind the decision to incorporate new areas included an opportunity to implement a common development strategy in this area and additional support from a uniform plan which resembles in many ways the Polish local zoning scheme. Furthermore, business information and promotion benefited from combined resources of several entrepreneurs.

Residents of Indianapolis indicated political factors as the main reason for incorporation of new large residential areas. A huge majority of affluent suburban residents are Republicans. The then Republican authorities opted for incorporation of new areas and autonomous residential neighborhoods into "Greater Indianapolis" in an attempt to gain new voters. These former separate administrative units retained much of their autonomy following incorporation.

The Philadelphia Case: Philadelphia is an example of a city where nearly 10 years of discussion on enlarging the area of the city failed to reach consensus and is unlikely to be concluded in the near future. Philadelphia authorities are highly reputed in the USA for their interesting initiatives and unconventional approaches, thus the failure to incorporate new areas should not be regarded as a penchant for traditional solutions. Interviewees indicated that affluence and self-sufficiency of prospective areas is the main reason for residents' reluctance to join the neighboring city.

Most residents of outlying neighborhoods not only live and own homes there, but also work in suburban commercial/industrial parks or for other local employers. Their children attend local grade schools and colleges. On the other hand, downtown Philadelphia houses large neglected and poor residential districts and City center rehabilitation proves a costly exercise. The residents of neighboring localities are unwilling to share the costs of these City areas, where they don't have any interest.

The problem is much more complex. However, a favorable approach of some of suburb residents proves that there are also arguments for incorporation of new areas to large cities.

E. Municipal Property Management Strategy for Sandomierz

1 Polish Theory and Practice: Available Experience

A land management strategy is an element of a municipal economic development strategy. Moreover, economic growth stimulation is also connected with local economic development strategy. In Poland, these strategies have been implemented since 1990. However, since there is only this six-year period of experience and theoretical studies, the experience from countries with long-established market-oriented economies and self-governance traditions are widely used throughout Poland. This also applies to the Pilot Local Government Partnership Program. In fact, reports on demonstration projects cities recommend several items of literature that may prove useful to Polish local authorities. The City of Sandomierz may obtain these materials from Program organizers. Since a land management strategy is subordinate to a city development strategy, a general definition of the latter is called for. As a general rule, the strategy is defined as:

The identification of long-term development goals and the approach to their review and modification, as needed due to external and internal factors throughout the strategy implementation period.

It helps identify human, physical, financial and organizational resources required for achieving the strategic goals. City promotion and stimulation of local economic growth are two important tasks under the strategy.

According to Edward J. Blakely, local economic development refers to the process in which local governments or community-based (neighborhood) organizations engage to stimulate or maintain business activity and/or employment. The principal goal of local economic development is to stimulate local employment opportunities in sectors that improve the community, using existing human, natural and institutional resources.

A strategic development strategy for Sandomierz is still to be developed and approved by the City Council. Sandomierz is not unusual in this respect: in 1995, only 100 out of 2400 Polish local authorities had development strategies formally approved by their City Councils. Generally, development strategies have been more frequently developed for provinces rather than for individual municipalities.

It should be emphasized that strategies for some small rural local authorities already exist in Tarnobrzeg Province. They were developed with a view toward obtaining financial support from international donors or local banks. This confirms the earlier findings of the Cooperation Fund that Polish local authorities tend to develop strategies in order to meet potential donor's or creditor's requirements rather than to have an additional decision-making tool.

2 City Development Strategy For Sandomierz

There are two Economic Development Strategies for Tarnobrzeg Province, prepared in 1994 and 1997. A participatory approach was used to prepare the former strategy which included inputs from

several Sandomierz residents. For example, the Mayor of Sandomierz led the task group “Construction and Building Materials,” while the director of the Agricultural Advice Center in Mokoszyń near Sandomierz headed the “Agriculture and Food Processing Industry” Task Group. In addition to both group leaders, several dozen Sandomierz residents participated in discussions, information gathering efforts and final meetings. A professional team of scientists provided the methodology and overall management of the project. As a result of this cooperation, the 1994 Strategy was identified as one of the best studies at that time.

The involvement of Sandomierz residents in strategy development means that several dozen city residents have had the opportunity to familiarize themselves with strategy development issues, thus acquiring a general knowledge of related goals and the approach to preparation of such studies.

Brief guidelines for Sandomierz were prepared on the basis of the 1994 Province Development Strategy. Though a brief summary can hardly be regarded as a document which meets all the requirements for city development strategy, nevertheless it indicates general development directions on the basis of input materials and resulting Province (Region) Development Strategy. Tourism and agricultural services were identified as top priorities for Sandomierz, while industry, other administrative and service activities were given second priority. These recommendations are similar to city development directions, as outlined in USAID’s Report of July 1996.

In light of the need for synchronization of detailed strategies (issue-based) with overall city development strategy, the preparation of a comprehensive city development strategy supported by a local data base and covering the city service area is a top priority for Sandomierz. This should be the first step in a systematic strategic planning process. By providing a vision of future development, a City (Gmina) Development Strategy (GDS) helps to evaluate different scenarios and select the best options that will contribute the most to the responsive long and medium-term management of gmina. It ensures that day-to-day and long-term operations are consistent and well coordinated. Strategic plans for specific areas are its constituent elements which should be coherent in order to achieve any desired goals.

It is vital to have a strategy document. In practice, an approved GDS provides a point of reference for assessment of various issues. By enabling councilors to refer to jointly agreed long-term goals, the discussion of issues will be better focused, saving time and helping to achieve one or more of the approved long-term goals at reasonable costs.

A land management strategy, as outlined previously, is expected to ensure similar benefits to day-to-day land management discussion in the City Council. Moreover, a land management strategy will assist in the assessment of property taxes, and in determining infrastructure priorities in selected areas of Sandomierz.

3 Inputs to the Development of Real Estate Management Strategy

A real estate management strategy is closely related to a spatial development strategy, as included in the proposed Study on Spatial Development Conditions and Directions. The City invited potential contractors to submit their bids for completion of this study to be commenced in the fall of 1997.

Considering the lack of a GDS and the City's inability to complete tasks recommended in the Report of July 1996 (the nine-month Action Plan also envisaged valuation of municipal land assets), it is impossible to work-out a complete and methodologically correct land management strategy. According to our Report of July 1997, the GDS should be based on an analysis of market and financial capability to meet land requirements for the needs of tourism, agricultural services and light industry.

This outlined strategy is based on provisions of the Strategy for Tarnobrzeg Province and the author's own studies of existing physical planning schemes for Sandomierz and neighboring localities. Furthermore, the outline is based on comments and information from interviews with companies and individuals involved in the local real estate market and City Hall staff members.

4 Real Estate Management Strategy: Methodology

A real estate management strategy covers all aspects of the city's total land area. All land is considered, irrespective of its ownership status, e.g., whether it is owned by the city (municipal land), State Treasury, individuals or cooperatives.

The real estate management strategy consists of identification and categorization of the city into distinct areas based on the recommended approach to real estate management and municipal land in particular.

There are different strategies for each of three distinct areas, referred to as Zones I, II and III. Each one includes real estate owned by the municipality, individuals, the State Treasury and cooperatives. A market-oriented approach may contribute to a better stimulation of local economic development through a proper use of municipal land assets. This will enable the City to implement a pro-development local real estate market policy. Sub-division of the city into separate zones is expected to enable the City to focus on specific, defined areas. This is especially important in medium-sized cities where human and financial resources are relatively scarce. This approach may simplify development of a number of comprehensive studies such as real estate valuations, ownership status clarifications, local zoning schemes, cost estimates, etc.

The approach is based on identifying areas or zones in the City where municipal real estate displays the following characteristics:

- ? a location of prospective development potential under existing local zoning schemes;
- ? an area where additional land can be purchased in the vicinity of municipal real estate;
- ? an area with an absence of any infrastructure development constraints that are likely to increase overall project cost, such as the need for pumping stations, bridges, etc.).

Market value of land is not considered in this methodology, due to the lack of property value assessments. However, approximate property value was estimated on the basis of sale price for neighboring comparable real estate.

5 Municipal Land Management Strategy

The Municipal Land Management Strategy for Sandomierz identifies the following three basic components:

- ? first and second priority zones of existing municipal real estate and the definition of land management principles applicable to these zones;
- ? development zones within priority areas, with particular regard to Sandomierz development priorities, e.g., tourism and agricultural services;
- ? the land management issues which are likely to have the greatest impact on stimulation of economic growth in the years to come.

6 Zoning Criteria for Areas with Municipal Real Estate

New priority zones and areas and management strategy recommendations are based on the following studies:

- ? ownership structure and land price study;
- ? municipal services and social infrastructure study;
- ? capacity of the existing road network;
- ? geographic land availability study;
- ? compliance of municipal projects with existing Master Plan or simple adjustment of Master Plan to accommodate these projects;
- ? a study of the possibility of including a limited number of second priority areas in zoning schemes.

Local zoning schemes are a pre-requisite for land privatization (sales) and acquisition of additional land by the municipality in order to provide adequate sites to developers (e.g. access roads and adequate plot form). The acquisition of additional land does not necessarily mean land purchase as this may well involve negotiations and exchange of land between municipality and private owners.

This strategy outline is based on the following stages of work:

- ? identification of top and second priority zones encompassing existing municipal real estate, as grouped into priority areas or individual plots of land (Fig. 12);

Figure 12

- ? determination of land management principles applicable to these zones;
- ? identification of priority areas, in particular those located in each priority zone;
- ? identification of areas to be incorporated into the municipal land inventory (prospective development areas located within and/or in the vicinity of the priority zone).

Key elements of land management policy are recommended for each of the zones and their constituent areas. Land management strategy recommendations focus on real estate development that may potentially stimulate the development of Sandomierz's priority functions: tourism, agricultural services and industry, (to limited extent). This approach made it possible to determine land management policy applicable to privately-owned real estate located within priority zones. This is especially important for medium-sized cities where municipal land assets are limited and the development of even single plots of land, buildings or blocks are vital to the economic growth of the entire city.

7 Delineation and Classification of Zones

The identification of city priority development areas is based on the following factors:

- ? their potential to stimulate economic growth of the city; and
- ? their potential for housing development.

Since cost-effective infrastructure investment requires that service networks (serve the developed and developing) areas of the city, infrastructure investment planning should be combined with a delineation of priority development areas.

The proposed land management strategy envisions three zones of municipal property in Sandomierz. Specific rules and priorities are defined for each of them. These are:

7.1 Zone I: the "Priority" Zone

This includes the Old Town area and its immediate neighborhood, as well as the Commodity Exchange and neighboring areas. Land and buildings of Zone I enjoy an unique location in Sandomierz. According to the Master Plan, they are to serve priority activities in Sandomierz (tourism and agricultural services). Unique (non-renewable and non-replicable) value of properties located in this zone results from a combination of several specific features of the location which do not exist in any other section of the town, or even the county. When a property located in this zone is sold it is unlikely that properties of comparable values could be found elsewhere, or that sales of such properties would provide information on market values. There is no other Old Town Hill on the Vistula River (figure 4, figure 7). There is no other commodity exchange area, which has been given the status of one of seven national commodity exchanges (which entails state subsidies).

Elements anchoring new development-oriented activities in Sandomierz are the key criteria for fixing the boundaries of Zone I and include:

- ? existence of real estate which is essential to the stimulation of the city's economic growth, and the potential usefulness of these properties to achieve city development priorities (as per existing or amended local zoning schemes);
- ? the number and area of municipal parcels, and their potential usefulness for capital investment (as measured according to Annex to the 1996 Report).

7.2 Zone II: A Favorable Location for Development

Typical features are:

- ? zoned for other purposes (industrial or housing in Sandomierz);
- ? characteristics and resources can also be found in other areas (i.e. not unique);
- ? moderate will to maintain existing ownership rights;
- ? services are provided and well maintained;
- ? areas regarded as prospective but subject to re-zoning.

7.3 Zone III: Not Attractive for Real Estate Development

Parcels are dispersed in different areas and unlikely to attract potential investors. Real estate in this zone is not expected to stimulate local development in the near future. It includes municipal property located far away from roads and other infrastructure facilities, and sites between agricultural plots of land. In particular cases it is recommended to either sell them or purchase neighboring parcels of land, so that they may become attractive to potential investors.

8 Determining the Principles Governing the Management of Real Estate in Priority Zones.

The usefulness of land in terms of Sandomierz's development priorities (tourism, agricultural services, commercial and small industry sectors) is a decisive factor in determining municipal land management principles.

8.1 Zone I (Priority Zone) - Real Estate Management Principles

The zone has been divided into the following sub-zones:

- ? Old Town area and its immediate neighborhood (Fig. 13-1);
- ? Commodity Exchange/agricultural service area and its existing neighborhood (Fig. 13-2);
- ? New sites of priority activities (agricultural services, tourism, commercial) (Fig. 13-3);
- ? Recreational area, Wisla River Port (Fig. 13-5).

Municipal real estate listed in Table 2 (number 1 to 28) is located in Zone I.

Figure 13

8.1.1 Sub-Zone 1

Old Town Area and its immediate neighborhood is a prime location for the development of tourism. The land management strategy should encourage rational privatization of individual plots located in this sub-zone.

The goal of the land management policy is: to establish a reasonable land reserve and encourage trade in vacant real estate.

Sale of land at fair market prices should be combined with reasonable efforts to retain a reserve of real estate for prospective capital investments. Since land assets are scarce in Old Town area, the City should consider adaptive reuse of some of the existing buildings (for example, small office premises in sub-standard municipal buildings located near the new City Hall headquarters).

It is recommended to adopt the following measures in Old Town area:

- ? encourage the sale and redevelopment of vacant or derelict real estate;
- ? retain adequate land reserves for priority capital investments, including a new hotel and other similar projects;
- ? step-by-step investigation of opportunities to develop the land “of unclear ownership status” (at Zydowska Street);
- ? Old Town revitalization schemes, well balanced in terms of both economic and other benefits (including relocation of City Hall departments to Old Town area or transfer of municipal buildings to city development-oriented users);
- ? consider re-privatization and privatization of commercial buildings, including restitution to owners or their heirs;
- ? build or seek investors to build a new hotel at Zawichojska Street (along with liquidation of existing hospital for infectious diseases).

Furthermore, it is recommended that land and real estate assets be transferred to investors under long-term lease agreements whereby lease holders covenant to complete building rehabilitation and maintenance works and up-grade building exteriors to a standard consistent with neighboring historical buildings. This recommendation applies in particular to the Old Town area and its direct neighborhood. In general, the City should follow the principle of privatization of its real estate assets and putting it on property market. The sale or perpetual lease of municipal property has a positive impact on the better use of land, increases the supply of real estate and stimulates property market.

Adaptive reuse for services of existing neglected municipal apartment houses in front of the new planned City Hall headquarters (near parcel no. 11, see Fig. 4 and Fig. 6) should also be considered. This would require feasibility studies to assess the costs of rehabilitation and provision of alternative housing to existing dwellers versus potential gains for the city. The market value of these derelict and sub-standard apartment houses should rise significantly following the relocation of the City Hall (or its more prestigious departments) to the new headquarters.

Considering Old Town's historical merits, large open space and green areas should be protected from development and maintained as a buffer between the two distinct development zones: the Old Town area and the commodity exchange which are linked by a unique, scenic pedestrian path.

A dairy, which is located just by the side of this path, is a discordant element in every sense (see Fig. 13-6). Ultimately, the area occupied by the dairy and its buildings should combine functions that would stimulate regional, rather than just local, development. It has been recommended that the enterprise should be moved to a different location.

8.1.2 Sub-Zone 2

For the Commodity Exchange area and its immediate neighborhood it is recommended that a local zoning scheme for the entire sub-zone be developed and a tax and fees policy adopted to discourage land vacancy and provide an incentive to develop the area under the local zoning scheme.

8.1.3 Sub-Zone 3

Taking into account its proximity to the Commodity Exchange and the regional highway, this sub-zone should be allocated to the expansion of Exchange, agricultural services or tourism (a hotel).

8.1.4 Sub-Zone 4

This is the recreational area near the Wis a River Port. It is recommended that the State Treasury transfer to the City the land between Pi sudskiego and Wybrze e Streets (proximity of the Castle and Old Town area) which could then be developed in line with the area's zoning.

Combining the areas of the Commodity Exchange and the Old Town into one zone is justified by the fact that they add to their mutual attractiveness. A number of similar facilities are needed in both areas and they could equally well serve both tourists and entrepreneurs (hotels, restaurants, branches of banks, etc.) and this was an underlying factor for combining these two, utterly different areas into one zone.

In the future it would be necessary to give specific detailed recommendations to many more than just these two sub-zones. This, however, will be possible only after work on the assumptions to the new master plan have been drafted. The preparation of such recommendations should be coupled with work on a local development plan for the commodity exchange area and its direct neighborhood.

8.2 Zone II: Real Estate Management Principles

Zone II includes three municipal real estate/parcels (coded 38, 39 and 40 in Table 2) located in the right-bank city area. Parcel no 39 is the largest (about 18 ha). In the left-bank area, the city owns residential/commercial parcels no 35, 46 and 47.

The right-bank area (see Fig. 13.4) is suitable for the development of small industry. It is necessary to ensure access to an intercity road (Sandomierz — Stalowa Wola) and provide infrastructure which should help stimulate rapid industrial development.

The following approach to Zone II management is recommended:

- ? The plots should be consolidated with street frontage and access to services.
- ? Additional plots of land should be acquired in order to meet the demand for industrial land, the zoning scheme should prohibit any development that would prevent construction of access roads or access to services required by new projects.
- ? Revenues from sale of land should be allocated to land management activities in zones I or II. This will result in a net financial or economic gain to the city, for example, by attracting new business or industrial development.

8.3 Zone III: Real Estate Management Principles

Other municipal real estate/parcels are located in Zone III and coded 21, 23, 25, 26, 28, 36, 41, 42, 43, 44 (see Table 2 and Figures 8 and 12).

These parcels are scattered all over the City, are of little value, and in most cases without appropriate access roads and services. Since these parcels are vacant, they should be considered for potential replenishment of the municipal land stock. It is recommended that the City consider sale of these parcels or purchase of adjacent parcels in order to assemble suitable sites for prospective development.

Plans concerning other real estate (marked as 24, 29, 30, 31, 32, 33) that is scattered among existing residential properties, provide for its use for housing as well. Therefore, they will not form areas which could be conducive to the development of the city.

9 Recommended Management Strategy

- ? The number of the most attractive properties in the top priority area has diminished. If the City decides to play a strong and direct role in local development, and to generate revenues from future land sales, it may consider acquiring properties in other areas.
- ? It is suggested that active development of land may be enhanced through an increase of the amount of both municipal land that is owned and managed by the city, and by an increase of the city administrative area in order to gain more options from which to select land for capital investment.
- ? The municipal land and real estate management strategy should be closely linked to the private, cooperative and State real estate management strategy.

F. Promotion of the City and its Real Estate Offers

In order to achieve economic development the City must encourage potential investors to establish their businesses in Sandomierz. Moreover, it is advisable to have a competitive edge over other cities in Poland and in this particular region.

Large cities, like Warsaw, Gdansk and Kraków, have much more resources and readily available promotional information, comparable to what may be found in developed countries. International promotion is supported by both domestic and foreign sponsors. For example, the "Warsaw 2000" promotional brochure was supported by over thirty national firms with regional branches in other Polish cities. Kraków held a two-day promotional event in New York, which included a series of presentations. The organizer covered accommodation costs of more than 200 invited guests. There are many examples of similar promotional events intended to familiarize potential investors with local investment opportunities.

In the case of small towns, the scope of promotion and range of potential investors are different. Companies of specific profile and highly specialized firms are likely to express interest in large- or medium-sized cities. Consequently, promotional targets can be achieved at much lower cost. Every city has its own specific qualities, priorities and scope of promotional information, prepared by local institutions or organizations. Possible promotional activities of Sandomierz City are discussed below.

1 Promotion of Sandomierz

The stimulation of local economic growth will require the City to undertake the following actions:

- ? develop a program that will encourage the development of existing enterprises and establish an environment conducive to creation of new business by residents of the City and neighboring areas.
- ? develop a program that will attract new investors and encourage them to locate their headquarters or branches in Sandomierz.
- ? develop a program that targets new technologies and foreign investors. This is the most neglected area in Sandomierz and other small/medium sized cities. As a general rule, the City should research to investor's standards and requirements and ensure that the city's programs and promotional material address these requirements.

As of today, the City Promotion and Development Department is in charge of promotional activities. The Department holds meetings of the Voluntary Committee for Rehabilitation of Historic Buildings and Sandomierz Development, as well as the meetings of Sandomierz Scientific Society. These events help to attract investors and additional funds. Information prepared and distributed by the City focus on history and promote cultural events and tourist activities. No department is responsible for business promotion or preparation of information for potential investors. Before 1996, the City used to prepare its information page which was published in English by Business Promotion publishers.

2 How to Promote the City?

To-date, Sandomierz's efforts to attract foreign investors have been limited. Leaflets praising the historical merits of the City are addressed to individual tourists rather than the large tourist industry. The City participates in international tourism events. The results of the City's participation in these and other events should be reviewed on a regular basis. This will help to improve promotional methods. It is advisable to compare the effects of previous promotional activities, e.g. as measured by the number of investors who contacted the City on the basis of information contained in its promotional offer.

Tourism is not the only strategic industry in Sandomierz, the city located in an important national agricultural region. Capital investments in agricultural services and food processing could contribute significantly to economic growth. This will require a wider scope and new forms of promotion. Information addressed to potential investors and intended to encourage them to invest in the City or its immediate neighborhood should contain useful key data including: a description of the City's economy, its elective economic region and its performance over the previous three or five years. Development of these materials is the responsibility of the City.

The existing Economic Development Strategies for Tarnobrzeg Province may prove helpful, though they do not contain enough information to enable an investor to reach a decision on whether to invest in agricultural service industry of Sandomierz.

It is important to prepare a clear Economic Development Strategy for Sandomierz, so that interested investors may be able to judge the possible cooperation and support they might expect from the City.

3 How to Promote Real Estate?

In addition to business information, potential investors are interested to know:

- ? the availability of suitable land parcels that can be purchased;
- ? planning, zoning and legal requirements, and;
- ? real estate prices.

Most often, investors first express interest in municipal real estate, as discussed in more detail in the Annex to the Report of 1996. In a competitive environment, where an investor or company receives offers from other Polish municipalities, it is unreasonable to expect the investor to search for this information on his own. Consequently, the success of initial contact with potential investor is highly dependent upon the quality and relevance of the promotional materials. Much of this real estate information is already available in Sandomierz, not from a central source, but from different departments and in the form that is unlikely to suit potential investors.

Small and medium-sized towns approach this problem in several ways. So-called "investor's one-stop" approach has proven most efficient, in Poland and abroad. This approach consists of establishing a special unit that may immediately provide all key information needed by potential investors.

In practice, the establishment of a new organizational unit in Sandomierz will require some time. Pending the availability of a comprehensive solution and data base of information, particular departments may provide detailed information upon requests. However, a set of key information on both City and privately owned land, should be readily available now.

The process of building a special information unit may start at the City Promotion and Development Department. This, however, will require computer hardware and software; data/information collection and processing; and hiring a person who would be in charge of preparing and providing information to prospective investors.

Both economic and real estate/land information should consist of statistical and descriptive parts. The latter is expected to contain an evaluation of existing trends and development forecasts.

Available experience from cities of comparable size indicates that handing out basic information at initial contact, followed by specific data mailed within 7 - 10 days, works best. The quality of initial information is decisive, since potential investors will decide on this basis whether to request any further details. Initially, the City may order the preparation of these materials by an external contractor. Ultimately, however, this should be prepared by the City.

4 Promotional Activities

A combination of different promotion techniques enhances prospects for establishing sustainable contacts with potential investors. The City should use both new media (e.g. Internet) and traditional printed documents. Medium-sized cities like Sandomierz should use an ever more popular form of advertizing and refer customers to supplementary, ever more detailed sources of information.

The objective is to establish contact with as many target recipients as possible and to provide them with sources of frequently up-dated information. Internet pages prove exceptionally flexible in this context.

Free Internet pages are now available. Moreover, free e-mail accounts are now offered to local authorities. For example, since July 1997 the Federation of Polish Unions and Associations of Polish Local Authorities jointly with BMB Promotions Company has offered e-mail accounts free-of-charge to any interested local authority. Sandomierz, along with other comparable cities, may take advantage of free information pages published by Polish consulates.

We recommend that a special team be established to be responsible for identifying and pursuing businesses and investors who will be new target recipients of information. Team members' responsibilities would include identification and monitoring of any new media for promotion of business, distribution of information about real estate or any other investment opportunities in Sandomierz. It should be emphasized, however, that the City is primarily responsible for determining any technical aspects of information and setting promotional priorities.

G. Conclusions and Recommendations

1 Conclusions

Property management in Sandomierz will be subject to change in the years to come. The present, predominant trend of municipal property sales in attractively located areas of the city shall be replaced by a careful limiting of the privatization process in the Old Town, where the existing real estate has unique values which cannot be recreated elsewhere. To carry out the privatization, even in accordance with the strategic guidelines, will not be sufficient to stimulate the development of the city. An increase in land owned by the city should be anticipated in the short term, so that the city may be well-prepared to form offers and proposals attractive to potential future investors. In addition to preparing land sites the city should be prepared to propose legal and organizational forms of partnership with investors. This means that the city should make offers for prospect investors, including proposed organizational and legal structure and to comply with the urban planning guidelines. This will additionally include room to negotiate the financing or the city's participation in the cost, for example by providing land as its contribution in kind.

Active promotion and dissemination of information should accompany the effort to contribute to the future development.

The future economic development of Sandomierz is first of all based on the development of two sectors: tourism, and services for the agricultural sector. In relation to the former, the city should emphasize the elements that provide an opportunity for the development of the Old Town area such as:

- ? full clarification of the legal status of all properties in the Old Town, and creating conditions for their restitution and privatization;
- ? providing for and maintaining the shape of the lots and access to properties presently owned by the city;
- ? so that the entire Old Town area should be given a final shape of spatial management and construction guidelines (repairs and adaptations).

Additionally, together with the long-term decrease in the number of municipal-owned properties, one should strive to extend the share of medium and long-term leaseholds, with the obligation to maintain the leased properties including buildings.

The provision of opportunities for the development of the latter sector, i.e. services for the farming sector, requires action towards increasing the future land reserve to be used to develop this activity which requires more extensive sites. Focusing exclusively on organizing the commodities exchange can result in a situation that once it is established, the city is not going to be the beneficiary. Additionally, its further development will be hampered or retarded by unfavorable conditions for its further expansion.

Further growth and development will increase the area of land owned by the city of Sandomierz. A large share of land will be used (like in the majority of the Polish cities) for new road construction.

Sandomierz is in the predominant group of cities where the development of the new single-family housing uses agriculture holdings divided in the past, characterized by extended, narrow strips of private land. It is inefficient to maintain those divisions. They will not necessarily lead to an increase of usable area and esthetic value of the new development.

While referring to the financial condition of the city, which is an important element to stimulate the economic development, we have pointed out that insufficient consideration is being given to economic factors in the process of approving local development projects. (Fig. 9 and 10). The chapter discussing these issues indicates how large areas of the city are involved, and how it is envisaged to intensify the development and the new division of land.

The recommendations relating to this issue are:

To establish a task force to evaluate the economic impact of new development plans, to determine the size of municipal expenditures for land purchases for streets and infrastructure. The city can use information from this approval of projects, and their estimated costs, when setting fees that should be paid by developers and future residents.

The city should create conditions to stimulate activity by developers, which can increase the effectiveness of new housing construction and enhance the local government's ability to increase the revenue from the use of new land transferred for the development.

Sandomierz is among the cities where there are limitations to new development. Three types of areas should be left undeveloped:

- ? the protected green area surrounding the historical zone of the Old Town,
- ? a not-for-construction flood areas in the vicinity of river embankment,
- ? slopes and ravines inaccessible for the development, and which are within the city limits, in the areas proposed to be included in the city administrative area.

The City should execute a land policy oriented towards an efficient land market. Establishment of a team working on a current basis can be helpful to this end, and we suggest that such a team be established. It should regularly analyze the financial aspects of projects under development. Its scope of work should include proposed taxes to accrue to the City Council (to be set locally), together with the documentation justifying their level or the area where they are to be levied. The collection of information, development of tax policy and land rent strategy can be a significant source of revenue for the city.

Together with the anticipated change in the municipal land management in Sandomierz, resulting from purchase and/or incorporation of new land in the suburbs, the importance of local physical plans is increasing. They should be accompanied by cost and fiscal analyses related to the implementation of those plans. The approval of the local master plan defining the pattern of streets and the size of lots bears significant financial implications to the city. The city is obligated to

purchase the land for road construction and to participate in the cost of the underground infrastructure.

The example of Sandomierz indicates that the expenses borne by the city, only to purchase the land for the road network, amount to a dozen percent of the annual municipal budget. While spending such large amounts, it is purposeful to analyze the most rational use of these resources, especially if we take into account the ongoing operating costs inherent with the maintenance of such durable assets as the road network.

The purchase of land for road construction is increasing the city's potential for development through an opportunity to develop the land in a more intensive manner. However, the full use of this potential takes place once the land becomes developed and when the users pay fees and taxes to the municipal budget, and when these compensate the outlays borne by the city. This results in a necessity to provide two following elements:

- ? to require, or provide incentives to encourage that the newly serviced land is used according to the plan, i.e. to be developed with the number of buildings as provided by the [master] plan, and;
- ? to determine an appropriate level of fees and taxes in order to guarantee a full or partial recovery of the costs borne by the city.

Adjacency fees are one of the forms of financial stimulation for land development, according to the master plan. These can amount, during the first year following the deadline for the completion of the development, to 10 percent of the land price, and are subject to a 10 percent increase (in relation to the land price) during each consecutive year. They can be an effective instrument, provided that appropriate land value appraisal is in place.

The additional public revenues resulting from fully using the power to set property taxes and fees would more than offset the cost of hiring additional staff to assess and collect these revenues.

The city authorities should use land management tools in a more intensive manner in order to accomplish social and economic objectives. In order to raise popular awareness and understanding of the efficient land management, one should act in several directions. Information in the newspapers and meetings with residents could facilitate the understanding of the market principles concerning the land management. While it is difficult to achieve good solutions in relation to the existing practices, it is a serious negligence to omit these principles while designing the new development. This is a statutory obligation of the local authority.

Increasing the area administered by the City of Sandomierz can also increase the efficiency of the city's management and potential for development, while taking into account its differentiated structure with predominant single-family housing.

This will allow in advance to secure through local master plans such forms of development which shall not limit any future, more economically efficient approaches. This relates especially to the

consolidation of the undeveloped land and to the implementation of projects by professional developers.

2 Recommendations

The anticipated changes in municipal land management increase the importance of properly designed local physical plans.

The approval of the master plan defining the street pattern and the size of the lots has important financial implications to the city. It obligates the local authority to purchase the land for road construction and to participate in the cost of the technical infrastructure. The cost of maintenance of the roads and infrastructure shall be borne by the city over the next few decades.

The city's powers to manage the land and its subsidizing of the infrastructure can be used by it to stimulate the establishment of new local developer companies or to attract companies already operating in other cities.

The above processes can be supported by the local press, informing in a credible way about possible benefits and negative effects of these processes.

The success of the promotion of the development of Sandomierz has at least three requirements to be met:

- ? the technical equipment (computers),
- ? the collection and aggregating of data and materials,
- ? employing of a person responsible to provide information and to fulfill other related functions.

Data on the economy and properties should include a descriptive and general section, i.e. evaluating the processes and presenting projections of the city's development, as well as possible benefits and results to potential investors.

Prerequisites to the city's rational land management policy are:

- ? To establish a "real estate data base" covering all sectors of ownership, i.e. to submit all information about properties in the city to the municipal local authority. This will enable to organize within the local government structure a modern, and constantly updated data bank about the land property.
- ? The data bank will be the basic tool to make accurate assessment of the local authority's capacity for action possible, as well as to stimulate the real estate market by facilitating the access for entrepreneurs to information on land, facilities and premises.
- ? To include issues related to property management in the study of the conditions and directions for the spatial management of the City of Sandomierz (the Studium), defining its spatial policy.
- ? To actively promote the use of real estate as one of the elements of the local economic potential, among other things, by creating incentives for investors, for example through relief

in taxes and fees. The dissemination should include: general information about the possibility to obtain the land, and specific information about especially attractive properties.

It is suggested that the City of Sandomierz:

- ? Conducts an analysis of all land properties in Sandomierz, including:
 - ? the ownership of land parcels,
 - ? the features of municipal, state and cooperative properties,
 - ? the level of use of municipal, state and cooperative properties by business entities,
 - ? possible ways to use the properties for economic development,
 - ? appraisal of the market value of municipal properties.
- ? Establish and keep a multi-function cadastre. This is an instrument to make legal, administrative and economic decisions under spatial planning. It consists of a data base and procedures and techniques to regularly collect, update and present the information.
- ? Prepare a development strategy for the city and its long-term social and economic development, which shall provide for a planned action — compliant with the adopted objectives and directions for the local development. They should determine the long-term policy of the local government within the scope of the development of the business activity, social and technical infrastructure and the principles of property management, and principles governing the location and implementation of new capital projects. The city government should create a framework for the activity and investment within the city, by indicating capital projects desired from the perspective of a rational development and the functioning of the city's economy.
- ? Develop "Study of the conditions and directions for the spatial management of the City of Sandomierz" (Studium) according to Article 6 of the Law of July 7, 1994, on spatial management.
- ? Formulate a policy to manage the land and other properties within the city limits.

The above-mentioned recommendations refer to such property management activities which rest within the scope of powers vested in the city or municipality. A number of the most important decisions such as the introduction of the ad valorem tax (property tax) belong to the responsibilities of the central government. Polish Parliament is currently working on a number of laws which are designed to stimulate local economic development, also through the use of municipal land and property assets.

Having improved methods of using currently available powers and tools, local governments will be able to truly benefit from new powers that will be vested in them once further decentralization of power is initiated.

ANNEX 1
Appraised Market Value of Real Property
Located at Długa Street in Sandomierz

(Land parcel location. See Fig. 9)

Date of Valuation: August 1996
by Appraiser from Voivod's Roster

General Information

Valuation commissioned by Sandomierz City Hall on July 31, 1996, file no: GP.8325/12/96;

- ? **Object of valuation:** real property no 315/3, area of 2923 sq. m, located at Długa Street in Sandomierz, Mokoszyń Neighborhood;
- ? **Purpose of valuation:** to assess market value of property mentioned above as per its function indicated in Master Plan prior to and after Plan amendment.

Legal Grounds

- ? The Land Management and Expropriation Act of April 29, 1985 (Journal of Laws No 30/1991, Item 127, as amended);
- ? Regulation of Minister of Physical Planning and Construction, dated March 1, 1995 on detailed procedures of property valuation (Official Journal Monitor Polski No 13, Item 163);
- ? Regulation of Tarnobrzeg Voivod, dated January 17, 1996 on establishing a voivodship roster of approved appraisers of real estates, buildings, units and other facilities;
- ? The Civil Code.

Supporting Materials

- ? Property Valuation — a collective study edited by Prof. Andrzej Hopfer;
- ? Market prices of apartment houses, privately-owned units, garages, agricultural land and buildings plots, as reflected by sale/purchase contracts within the jurisdiction of Tax Office in Sandomierz in 1996;
- ? Market approach — property sale price quotations, as published by WACETOB.

Source Information

- ? Inspection of real estates conducted on August 15, 1996;
- ? Analysis of notarial deeds concerning comparable real estate purchase contracts concluded on the local market;
- ? Zoning requirements of Master Plan for Sandomierz City;
- ? Land register maintained by District Office (Urząd Rejonowy) in Sandomierz.

Valuation Methodology

Residential-zoned land was appraised according to comparative market method consisting of comparison with the value of comparable real estates sold under contracts of the civil law, while taking into account available municipal service, power and gas supply, land function under existing physical planning scheme, land development level, location and attractiveness factors.

Also the value of agricultural-zoned land was appraised using comparative market method consisting of comparison with the value of comparable agricultural properties sold under contracts of the civil law, while taking into account type and class of farmland.

1 Description of Real Estate

The plot no 315/3 of 2923 sq. m located in Sandomierz at Przedmiescie Mokoszyn, Długa Street.

The plot has clear ownership status and Mortgage Registry No KW 16929; owner: Ms. ____.

According to the former master plan for Sandomierz City, the plot was located in area coded M 18 RP - RO, i.e. „Farmland and Gardening Area”.

Heretofore, the plot was formerly used as farmland. The plot was classified in the Land Register as R I — 2923 m sq; the plot of regular shape located in an intermediate urban zone.

According to amended local master plan for Sandomierz City, the plot is located in zone coded M 33 MN, i.e. „Area of plots for the planned single-family development. Built-up area contours and plot sub-division as per detailed draft plan amendment. There are access roads to the local road. The volumes of residential buildings of 1-2 above basement floors are defined. It is allowed to erect non-residential buildings there. The land is to be provided with complete services. In the period of transition it is recommended to use gas heating or to connect buildings to hospital's boiler house. The use of sealed septic tanks is allowed until completion of new sewage treatment plant. The requirements for execution of connections to municipal service networks should be obtained from network operators.”

The land is not developed, there are no services available and its location is of average attractiveness.

2 Real Estate Valuation as per Master Plan M 18 RP RO

According to analysis of notarial deeds, sale prices of soil class I agricultural properties located in Sandomierz Mokoszyn range from PLN 80 to 130 PLN per 1 are (100 sq. m).

This agricultural property value appraisal is based on comparative approach, whereby the value of appraised property is assumed equal to the price of comparable property offered for sale on a free market. The appraisal is based on two comparative offered for sale agricultural real estates most similar to the appraised property.

- ? Property under transaction Rep. “A” No 2864/95, concluded on December 2, 1995, which included plots no 43 and 44, total area of 0.98 ha, located in Przedmiescie-Mokoszyn and classified as R I — 0.39 ha, R II — 0.17 ha and R III a — 0.42 ha, as sold for PLN 9,800. Average contract price was PLN 100 per one are.
- ? Property under above transaction composed of plots no 45, 46, 47 and 48, total area of 1.63 ha, located in Przedmiescie-Mokoszyn and classified as R I - 0.74 ha, R II — 0.52 ha and R III a — 0.37 ha, as sold for PLN 16,300. Average contract price was PLN 100/1 are.

In order to consider price increase a time factor coefficient was applied:

$$Cz = \text{PLN } 100/\text{are} \times 1.20 = \text{PLN } 120/\text{are}$$

This price is consistent market value of 1 are plot as indicated in market quotations and findings of Sandomierz Tax Office.

Valuation of agricultural property no 315/3:

$W_g = 0.2923 \text{ ha} \times \text{PLN } 12,000/\text{ha} = \text{PLN } 3,507.60$

$W_g = \text{PLN } 3,508$

Say: three thousand five hundred eight new Polish zlotys.

3 Property Valuation According to Master Plan M 33 MN

The analysis of market price quotations for property in Sandomierz land assembled areas zoned as single-family residential revealed that prices have ranged from PLN 10 to PLN 23 per 1 sq. m of land, according to notarial deeds.

According to Tax Office in Sandomierz, the prices range from PLN 10 to PLN 15 per 1 sq. m of land.

In order to establish the market value of residential real estate, similar and the most representative local real estates were selected for comparison. The valuation was based on contract prices of comparable real estates, as corrected for any dissimilarities from the appraised real estate.

Comparable real estates are:

? plot no 1019/21, area of 353 sq. m — Rep. A No 1946/96 of June 26, 1996, located at Krukowska Street in Sandomierz; best bid price: PLN 18.41/sq. m.

Cz — PLN 18.41/sq. m

Adjustment: (in minus)

land development — 25%

Adjusted price: $c = \text{PLN } 18.41/\text{sq. m} \times 0.75 = \text{PLN } 13.81/\text{sq. m}$

? plot no 7690/10, area of 694 sq. m - Rep. A No 1175/96 of July 1, 1996 (Notary Office in Tarnobrzeg), located at Rózana Street in Sandomierz; contract price: PLN 14.41/sq. m.

Cz - PLN 14.41/sq. m

Adjustment: (in minus)

land development — 15%

real estate development — 5%

total adjustment — 20%

Adjusted price: $c = \text{PLN } 14.41/\text{sq. m} \times 0.80 = \text{PLN } 11.53/\text{sq. m}$

? plot no 1088/2, area of 3815 sq. m — Rep. A No 1664/96 of May 30, 1996, located at Zawichojska Street in Sandomierz; contract price: PLN 12/sq. m.

Cz — PLN 12.00/sq. m

Calculation of adjusted price for 1 sq. m of land (arithmetic average):

$$c = (\text{PLN } 13.81/\text{sq. m} + \text{PLN } 11.53/\text{sq. m} + \text{PLN } 12.00/\text{sq. m}) : 3 = \text{PLN } 12.44/\text{sq. m}$$

$$c = \text{PLN } 12.45/\text{sq. m}$$

The assessed value of residential plot:

$$W_r = 2923 \text{ sq. m} \times \text{PLN } 12.45/\text{sq. m} = \text{PLN } 36,391.35$$

$$W_r = \text{PLN } 36,391$$

Say: thirty six thousand three hundred ninety one Polish zlotys.

The assessed value of real estate is within the range of local market quotations and findings of the Sandomierz Tax Office.

4 Comparison of Estimated Values

Farmland — PLN 3,508

Land for housing construction project — PLN 36,391

Difference in value due to the change of the Master Plan zoning classification of the land:

$$\text{PLN } 36,391 - \text{PLN } 3,508 = \text{PLN } 32,883$$

(say: thirty two thousand, eight hundred eighty three Polish zlotys).

Sandomierz, August 22, 1996

Annex 2:

Public-Private Partnerships in Transitional Land and Housing Markets Case Study from Bulgarian Cities of Bourgas, Rousse, and Stara Zagora

James Lynch and Lee Baker¹

Following the tumultuous socio-economic-political changes that swept Central and Eastern Europe and the Soviet Union during the late 1980s and early 1990s, the United States Agency for International Development (USAID) pursued in 1993 and 1994 the formulation of technical cooperation programs that assisted a number of municipal governments in the promotion of the development of land for housing through the use of public-private partnerships. This case study provides a brief review of the demonstration project designed and implemented in the Bulgarian cities of Bourgas, Rousse, and Stara Zagora. The demonstration project consisted solely of technical assistance and did not include any financial resources to support the delivery of land for housing. The real credit for the success of the project rests with the municipal authorities who realized the potential of the concepts, adapted them to meet their own needs, and developed a uniquely local process to achieve their own goals and objectives.

1 Overview

The Bulgaria Demonstration Project was conceived by PADCO, Inc. in a concept paper submitted to USAID in October 1993. The concept paper served as the basis for the development of a technical assistance program, commencing with a workshop in Bulgaria on how and why public-private partnerships are structured in market economies. This introductory workshop, conducted by a PADCO-led team of consultants in November 1993, was attended by municipal officials and private developers from the three municipalities of Bourgas, Rousse, and Stara Zagora.

The technical assistance program after the workshop was structured to assume a hands-on, consultative approach. The team made regular visits back to Bourgas, Rousse, and Stara Zagora at strategic phases during the overall RFP process. During these visits, the team essentially served as consultants to the municipal officials who were responsible for designing and implementing the public-private partnership projects in their respective communities.

The actual results of the demonstration project vastly exceeded initial expectations. By January 1995, only 13 months after the initial workshops, the three municipalities of Bourgas, Rousse, and Stara Zagora had selected sites, prepared RFPs, reviewed proposals, and awarded development rights for eight sites. In total, the demonstration project promoted the creation of public-private partnerships

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for the development of more than 300 housing units plus additional office, retail, and garage space in the three participating municipalities.

2 Background and Context

Bulgaria is located in Eastern Europe on the Black Sea and has a population of approximately 9 million (it is one of Eastern Europe's least densely populated countries). In the 1950s, its economy was dominated by agriculture, but the importance of industry has grown in the intervening years to the extent that now only a minority of the nation's labor force works on farms. Up until the early 1990s, Bulgaria's housing sector was modeled after the Soviet system, dominated by large state and municipal enterprises that constructed high-rise, concrete apartment buildings. As the majority of these enterprises fell victim to the collapse of the state planning system, a new class of entrepreneurs emerged: the private developer.

This new group of private developers in Bulgaria operated quite differently than the state and municipal construction enterprises of the past. For one, private developers paid close attention to the dynamics of the housing market and focused on building products that reflected market demand. In sharp contrast to the monolithic structures that typified the centralized planning era, the new housing forms were predominantly low-rise complexes consisting of 10 to 40 units; in many cases, the ground floors were reserved for commercial uses, such as small shops and restaurants. The purchasers of these new units were households that had the financial resources to buy the units with cash, often on an installment basis corresponding to predetermined construction benchmarks defined in the sales contract. Therefore, privately developed housing was (and still is) marketed to those households who had the ability to pay cash; given the distribution of income in Bulgaria, this group represents a very small segment of the housing market.

Although public-private partnerships had never been created in Bulgaria, the RFP approach was viewed with interest and enthusiasm by both municipal officials and private developers. From the public perspective, Bulgarian municipalities carry a tremendous liability (in the form of housing units) to compensate households whose property was expropriated during the 1980s for public purposes. Strapped for financial resources and further constrained by the First National Assembly's 1990 moratorium on the sale of municipal land, local officials embraced the concept of receiving a percentage of the proposed number of housing units (typically 20-30 percent of the total) in exchange for granting development rights on municipally owned sites; the developers, in turn, "pre-sell" the remaining units at market prices to interested home buyers. The units turned over to the municipality upon project completion are then provided to those households whose property had been taken without just compensation. From the private developers' perspective, the RFP approach increases access to highly desirable sites for development and offers an attractive alternative to the often complex and lengthy negotiations with private landowners.

3 Conceptual Framework for the Project

In transitional economies, it is important to clarify the roles and responsibilities of local governments when working with the private development sector. In Bulgaria, local governments have limited authority to regulate their own affairs. The national legislation and regulatory acts of the various

ministries and other central government agencies regulate, to a considerable extent, the way local governments can function. The central government establishes the guidelines for municipal budgeting and planning activities, and the local administrations are obliged to follow the priorities set forth by the central government.

Municipalities in Bulgaria can be characterized as having a strong mayoral form of government. Operating with large city councils, municipalities have certain functions that are controlled by elected councilors and city council committees. Such functions include the privatization of municipal property and overseeing transactions involving the conveyance of property rights on municipal sites. The authority to prepare and carry out such transactions can be delegated to the local administration by way of city council resolutions, or through enactment of local ordinances regulating the roles and responsibilities of local governments.

City councils and local administrations have their share of responsibilities in the process of creating public-private partnerships for housing development projects. In promoting private investment in housing development, the municipality must hold true to its foremost responsibility to use public resources efficiently while acting for the benefit of its citizens. To this end, the process of promoting private sector involvement in housing development should: 1) lead to cost-effective solutions; 2) promote creative approaches to problem-solving; 3) advance the attainment of specific municipal objectives; and 4) occur openly in a fair, yet competitive environment.

3.1 The Step-by-Step Public-Private Partnership Process

The principal vehicle or instrument for creating public-private partnerships is the RFP. RFPs are intended to: announce and encourage an open, fair competition between developers; elicit proposals that provide a complete and detailed description of a developer's plan, allowing for the judgment of an offeror's capability to carry out the proposed project; and protect the municipality's financial and legal interests. In general, an RFP should include at least the following: mandatory performance standards; general and special conditions or terms under which the developer will operate; a time frame for construction; a recommended format and specific procedures for preparing and submitting proposals; criteria by which competing proposals will be evaluated; and a schedule and process for reviewing the proposals and selecting a "winning" developer.

As an alternative to issuing an RFP, a municipality can first issue a request for qualifications (RFQ), which typically explains the objectives, time frame, and parameters of the proposed public-private partnership and also requests interested developers to submit their qualifications (e.g., experience, personnel, financial statements) for review. Hence, RFQs can be used to "pre-qualify" or "short-list" developers interested in participating in the project. Once this short list is determined, the municipality can issue an RFP inviting the qualified developers to submit detailed project proposals.

It cannot be overemphasized that municipalities must have a solid understanding of local real estate markets before attempting to structure public-private partnerships. On the demand side of the equation, consideration needs to be directed toward such factors as population growth, employment trends, the distribution of incomes, vacancy rates, sales activity, and so on. In transitional economies, such as Bulgaria, housing demand is profoundly affected by macro-economic conditions, such as

high inflation and interest rates, as well as the absence of long-term mortgage instruments. On the supply side, construction activity and absorption rates, differentiated by product type, size, and location, should be considered. Last but not least, information about private developers themselves is very important. A comprehensive assessment of the financial health, experience, and reputation of private developers provides invaluable information about potential “business” partners.

As shown in Figure 1, there are a total of seven steps in the RFP Process. Presented below is a description of steps one through five, leading to the selection of the “winning” developer(s).

Figure 1
Steps in the RFP Process

1. Establishing Specific Development Objectives
2. Identify Municipal Sites for Development
3. Prepare an RFQ and/or RFP
4. Prepare a Model Development and Disposition Agreement
5. Review Development Proposals and Select Winning Developer(s)
6. Negotiate and Sign Development Contract with Developer
7. Monitor Project and Enforce Contract

3.1.1 Step 1: Establishing Specific Development Objectives

It is important for a municipality to establish specific development objectives before initiating the RFP process. The municipality can use this process to achieve such housing development objectives as: 1) promoting affordable housing; 2) preserving historic structures and landmarks; 3) stimulating private sector development; 4) maximizing economic and social returns on municipal assets; and 5) a range of other more specific objectives related to a particular site. Objectives should be clearly outlined in the RFP. It is likely that the municipality will have multiple objectives for a site, and it may be useful to rank these objectives in order of importance. (See Figure 2 on the following page for a further description of municipal objectives in the RFP process.)

In order to achieve as much as possible by way of private development, municipalities will need to articulate their objectives clearly. It may be necessary to separate objectives, such as those pertaining specifically to a site (e.g., provide a play area for children) from those pertaining to city-wide or even national objectives (e.g., use energy-efficient technology).

3.1.2 Step 2: Identifying Municipal Sites for Development

Municipalities should carefully consider the suitability and attractiveness of a site before it is selected for a housing development project through the RFP process. In examining candidate sites, municipalities will want to consider the following types of issues.

- ? Is the location a good one for housing and would housing be consistent with existing land use plans?
- ? Is the size of the site appropriate for private investment?
- ? Is there access to critical infrastructure or, if not, will this infrastructure or connection be built?

? Is there clear title to the land?

The importance of site location and size is directly related to market demand. Because the private developer would assume the risk and responsibility of selling the housing to prospective buyers, it is critical that the proposed site be located where there is effective demand for the proposed type of housing. (Effective demand means that people both would want to **and** could afford to buy or rent the housing at full, unsubsidized costs.) At present, effective demand is likely to be greatest for housing in infill locations with access to central city amenities and services.

In terms of site size, smaller sites appropriate for perhaps 10 to 30 units are likely to be most desirable at present, given the chosen developer's probable need to pre-sell units in order to secure construction financing. With smaller projects, it is also easier to create a condominium ownership structure to ensure proper building management.

Access to infrastructure is another important factor in a site's attractiveness to private developers. Until mechanisms for funding infrastructure expansion exist, new housing should be promoted in areas served by existing infrastructure. Developers would ordinarily need to assume responsibility for on-site infrastructure improvements according to standards established by the municipality.

A fundamental prerequisite for the participation of private developers in a development agreement with a municipality is the existence of clear title to the site. In Bulgaria, municipalities are more likely to transfer "development rights," in effect, and not freehold interest in the property. Even though municipalities "own" many sites, they must ensure that they have the full authority to transfer development rights.

An RFP should contain a location and site map with a description of site features, planning constraints, and other salient information.

Figure 2**Municipal Roles and Objectives in the RFP Process**

It is important to establish specific development objectives early in the RFQ/RFP or RFP process. Some general municipal objectives that can be achieved through a public-private partnership housing project are: promoting home ownership, meeting housing needs, promoting economic development, generating municipal revenue, stimulating the real estate market, and enhancing the physical environment. As a starting point, some Bulgarian cities may find it useful to develop a comprehensive housing strategy as a framework for setting objectives for specific development projects. The main roles and responsibilities of cities in the RFQ/RFP process include:

Creating the Spirit of Entrepreneurial Partnership. A spirit of partnership is extremely important. It leads to the effectiveness of many other performance factors. In addition, the public sector needs to view its activities as would as entrepreneur, i.e., it must be willing and able to take risks to achieve results.

Preparing the Master Plan and Setting Objectives. The master plan and development objectives are a frame- work for private sector activity. The designation of certain lands for development provides a level of predictability of public actions. Defining both general and site-specific objectives aids private developers to prepare realistic responses to an RFP.

Facilitating Project Completion. This function includes taking all steps to make a land parcel legally available for private development, making a pre-appraisal of the site's market value, arranging for the effective phasing of development on the site, and expediting necessary government permits.

Promoting Fairness and Competition in Free Market Systems. The public sector must assure participants that the bidding process will be open and fair. The careful and thorough preparation of an RFP, with objective standards to guide the selection of a developer and with the drafting of a model DDA, can result in a fair process.

Providing Infrastructure and Related Community Facilities. Careful consideration needs to be given to the provision of infrastructure on proposed development sites. If the public sector will require the private sector to provide the infrastructure, then, in the spirit of partnership, the public sector needs to examine other ways it can offset the higher costs to developers. One way would be to reduce requirements on the number of living units that a municipality might otherwise insist on retaining, or by discounting the sales price of the site.

Assisting with Project Feasibility. The public sector can help with project feasibility by such measures as providing gap financing and discounting land prices and various fees. However, a municipality should offer no financial commitment unless 1) it has determined that the measure is justified in order to make a project feasible or affordable and 2) it is able to meet its financial commitment on time.

Project Management and Contract Enforcement. This is a key role for the public sector. Once a partnership has been established, it is important that the municipality manage its commitments to ensure that there will be no unnecessary delays due to permit processing or compliance with other agreed commitments. In a similar vein, the municipality needs to monitor the developer to ensure that the developer's performance meets agreed standards. The public sector must further ensure that legal remedies are available in the event that the developer, for whatever reason, fails to comply with some aspect of the written partnership agreement.

3.1.3 Step 3: Preparing an RFQ and/or RFP

A municipality can use either the RFQ/RFP (two-step) or the RFP (one-step) process. The advantage of the RFQ/RFP process is that developers not selected to receive an invitation to submit a proposal do not have to spend resources on the preparation of a full proposal. Eliminating some bidders at this point could reduce unrealistic bidding, and also reduce the municipality's effort in the selection process.

As part of an RFP/RFP or RFP preparation process, municipalities must undertake a number of activities, including the following.

- ? **Clarifying the Permit Approval Process and Simplifying If Necessary.** The permit approval process should be streamlined so as to reduce the developer's uncertainty, costs, and schedule. The permits are of two types. One type is for infrastructure connections to water, sewer, electricity, gas, telephone, and possibly heating. The other type, associated with the municipality and the state, permits the developer to develop the site (e.g., planning permits, building permits, historic/cultural permits). At a minimum, the RFQ/RFP should contain a complete listing of all permits required and the sequence of steps the developer needs to go through in order to secure all permits.
- ? **Defining Relocation and Site Clearance Responsibilities.** Relocation and site clearance responsibilities should be defined in order to ensure that development can proceed without unnecessary delays. If the project to be constructed is on a site with occupied housing, the municipality or the developer may be responsible for relocating tenants to other suitable housing. If the developer is responsible for site clearance, the value of the materials salvaged from the site should be taken into consideration in the bid price for the building rights.
- ? **Conducting Market Analysis.** To ascertain the feasibility of proposed development projects, a market analysis needs to be conducted. This could be achieved by requiring developers to submit a market study or analysis as part of their bids. Alternatively, the municipality could conduct a housing survey (a method used in developed market economies as well), which would yield valuable information to the municipality and could also be shared with private developers to help them better understand the market for new housing.
- ? **Defining Proposal Selection Criteria.** Developers need to be assured that they are competing on a "level playing field" and that the selection process is objective and transparent. In order to ensure that developers clearly understand how their proposals will be reviewed and evaluated, proposal selection criteria need to be explained in the RFP along with the process and time frame for bid review.

Listed below are the major criteria by which proposals are usually evaluated.

- ? **Conformance to Municipal Objectives.** The extent to which the proposal conforms to city-wide and site-specific objectives.
- ? **Timeliness of Construction.** The time frame from contract to commencement of construction and to completion of construction, including the schedule when payments and/or transfer of living units to the municipality would occur.

- ? **Performance.** The quality of the development team, including references for the developers, the contractor, the investor, the architect and engineers, and the marketing person or organization.
- ? **Aesthetics.** The exterior appearance of the proposed building and grounds.
- ? **Quality of Development.** The quality of the proposed construction.
- ? **Financial Feasibility.** The likelihood that the project could be built and marketed as proposed.
- ? **Social Housing Needs.** The commitment of the developer to set aside housing units for low-income or disadvantaged groups, either directly or through the municipality. Also, the municipality might give preference to projects that contain market units designed to be affordable to the middle class.

3.1.4 Step 4: Preparing a Model Development and Disposition Agreement

The instrument that provides the basis for implementing a public-private partnership is the Development and Disposition Agreement (DDA). This is a comprehensive legal document that specifies the performance requirements and auditing procedures for a particular project. The DDA sets forth the specifications for all aspects of the project, including, among other things, site preparation and utilization, infrastructure provisions, financing, phasing, and scheduling. The DDA also provides the basis for resolving disputes.

A model DDA should be prepared for inclusion in the RFP so that developers understand the legal ramifications of entering into a development agreement with a municipality. A draft DDA also serves to clarify the project's specific objectives and procedures.

3.1.5 Step 5: Reviewing Development Proposals and Selecting Developers

The RFP submission, evaluation, and negotiation process must ensure fairness to all parties. Submission requirements should not unnecessarily preclude smaller or more recently established firms from competing. Evaluation criteria should be pre-specified in the RFP and should incorporate a numerical ranking system for judging proposals. A numerical ranking system ensures that proposals are evaluated on an objective rather than a qualitative basis.

Municipalities should establish official proposal review and selection committees. Such committees should be comprised of appropriate municipal personnel and should also include non-municipal employees. The purpose of including non-municipal employees is to add expertise as well as to promote greater transparency to the review and selection process. Examples of appropriate non-municipal professionals for such committees include business leaders, local residents, and community interest groups.

Last but not least, the negotiation of the final agreement between the developer and the municipality should be relatively consistent with the RFP and the proposal itself so that the fairness of the selection and negotiation process is not in question.

4 The Results of the Housing Development Demonstration Project

4.1 Overview

This section presents a brief description of the results of the demonstration project in Bourgas, Rousse, and Stara Zagora as of February 1995, the time at which the technical assistance supporting the project was completed. In the process of creating public-private partnerships, each municipality confronted different issues, problems, and challenges that also served as important lessons in how the public and private sectors can work together to achieve mutual interests and objectives.

4.1.1 Bourgas

Bourgas is a Black Sea port with a population of about 350,000. Its economy is highly dependent on shipping and tourism, the latter particularly during the summer months.

On 15 April 1994, the municipality of Bourgas announced the availability of its RFP for three contiguous, municipally owned sites in the Lazur District of town. This area is a prime location for housing, given its proximity to the Sea Garden Park, the Black Sea, and the central part of town. Surrounding uses are predominantly high-rise residential building. Compensation to land owners for development rights in this district have averaged 40-45 percent of gross building area. In October 1994, the sales price for new residential units in this area was approximately 16,000 lev (US\$250) per square metre.

The RFP specified that the minimum compensation to the municipality for each of the three sites was to be 30 percent of the gross building area. The RFP also defined acceptable development parameters and uses for the three sites, emphasizing residential uses and permitting commercial uses and garages on the ground floors. Developers were encouraged to submit development proposals for one or more of the three sites.

The deadline for submission of proposals to the municipality was June 6th. In total, 21 proposals were submitted by 12 development companies for the three sites. On June 7th and 8th, the municipality conducted a comprehensive proposal review and selection process. Developers were required to present their proposals before two committees: the Architectural Review Committee and the Economic Review Committee. The committees' members ranked each of the proposals across a wide range of architectural and economic criteria.

On the morning of June 9th, the municipality publicly announced the finalists for the three sites. The Bourgas-based firms of Montagi and Masters were selected to develop sites 43A and 43B, respectively; Odessos, a development consortium from Varna, was selected to develop site 43C.

The ensuing months marked a period of negotiation between the municipality and the "winning" developers. These negotiations focused on finalizing compensation terms (i.e., specifying the size of the types of housing units to be provided to the municipality) and securing necessary permits and approvals from the municipality. In total, approximately 200 units were proposed for development on the three sites with the municipality receiving an estimated 67 units (33 percent of the total), as well as commercial, garage, and office space as compensation for granting development rights to the parcels.

On September 6th, three months after the municipality selected the “winning” developers, Masters Company commenced construction on site 43B. The municipality sponsored a ground-breaking ceremony to commemorate the event. Ground-breakings for the other two projects took place in November 1994.

4.1.2 Rousse

Rousse is a city of approximately 186,000 people, the fourth largest city in the nation. It is located in northern Bulgaria on the Danube River and is the country’s largest river port.

On 12 March 1994, Rousse released three RFPs for three separate municipally owned sites. One RFP was for a site in the city centre (Site A); another RFP was for a municipally owned site on the outskirts of town in a residential district (Site B); and the third RFP was for a site adjacent to an industrial district east of the city centre (Site C).

Rousse’s Local Ordinance No. 7 fixes compensation levels to the municipality (for development rights) at 30 percent of gross building area for central city sites and 20 percent for other parts of the city. Therefore, the minimum compensation levels, as defined in the RFPs, were 30 percent for the central city site and 20 percent for the other two sites.

The central city site is located on a busy traffic circle in front of the City Gardens. Compensation to land owners for development rights in this district have averaged 30-35 percent of gross building area; the October 1994 sales price for residential units in this area was approximately 9,500 to 13,000 lev (US\$150 to US\$200) per square metre. Recognizing that the site is more appropriate for commercial than for residential uses, the municipality specified in the RFP that if commercial space is developed, compensation to the municipality in the form of housing could be provided off-site. In other words, the developer could develop or purchase new residential units and provide these units to the municipality as compensation for development rights to the site.

On April 11th, Rousse received three proposals for the central city site, but no proposals for the two outlying sites. After reviewing the proposal, the municipality selected the “winning” developer, Domostrene, on May 20th. Domostrene’s proposed development includes a combination of shops and office space; the company also agreed to provide the municipality with approximately six housing units off-site as compensation for development rights to the central city site.

As noted above, no proposals were submitted for the two outlying sites because developers viewed the minimum compensation requirement of 20 percent to be too high for the locations. In a second attempt to solicit developer interest in the outlying residential district site, the municipality released the RFP again (unchanged) in August; however, no developers submitted proposals. As a result, the municipality amended Local Ordinance No. 7 in September to eliminate the 20 percent compensation requirement for sites outside the central city; however, the 30 percent requirement still applies to central city sites.

Rousse had identified another municipally owned central city site to include in the demonstration project, but a pre-existing contract between the municipality and previous land owners stipulated a minimum compensation requirement of 40 percent. Acknowledging that no developer would be able to relinquish 40 percent of their project, the municipality decided to link this site (Site D1) with

another municipally owned parcel (Site D2) designated for a public parking garage. For both sites, the typical compensation to land owners for development rights averages 25 percent of gross building area; the average sales price for new housing in these areas was 9,500 lev (US\$150) per square metre in October 1994. On September 6th, the municipality released its fourth RFP soliciting development proposals for the housing site as well as the site for a public parking garage.

By early October, the municipality had received four proposals for the two “linked” sites. On October 10th, the Dunav Company, representing a consortium of four companies, was selected as the “winning” developer. Ground-breaking for the housing site occurred on October 16th, as the developer used pre-existing plans for the site made available by the municipality. Of the 68 units planned for development, approximately 24 units were used to compensate previous land owners; the ground floor was developed with commercial uses. Construction of the public parking garage was expected in April or May of 1995 and the municipality received approximately 25 percent of the parking area as well as a portion of the ground-floor commercial space as compensation for development rights to the site.

4.1.3 Stara Zagora

Star Zagora is located in the agriculturally rich central region of Bulgaria and has a population of about 165,000 people, making it the nation’s sixth largest city. The city’s economy is largely agriculturally based, but the manufacturing sector also plays an important role.

Unlike Bourgas or Rousse, Stara Zagora was without any local provisions or ordinances permitting the transfer of development rights to developers. Although Stara Zagora initially set out to draft a local ordinance modelled after Local Ordinance No. 7 in Rousse, the municipality decided to adopt an interim measure, drafted by the Mayor, permitting the process to proceed as a demonstration. The Municipal Council adopted this measure on March 16th, allowing two municipally owned sites to be included in the demonstration project.

The first site (Site A) identified by the municipality is located downtown in a residential neighborhood. A state company had laid a foundation on this site in the late 1980s and, therefore, the municipality felt it was necessary to: 1) cancel or revoke the state company’s development rights to the site; and 2) compensate the company for the foundation. On further investigation, the municipality discovered that the company had never been granted legal rights to develop the site. As a result, the company became more receptive to negotiating a settlement for the foundation.

The second site (Site B) is also in the central part of the city, approximately one block east of the first site. Both sites are very appropriate for residential development with low-density commercial uses on the ground floors. Compensation to land owners for development rights in this central area has averaged 25-30 percent of gross building area and the average sales price for new housing was 10,500 lev (US\$160) per square metre in October 1994.

On September 1, the municipality announced the availability of two RFPs. The original deadline for submission of proposals was September 30th, but the municipality extended this deadline by 20 days for both sites. The compensation requirements for the first site were spelled out in detail (i.e., number of flats, by size), as the municipality was obligated to compensate the original parcel owners who were displaced by the former, unsuccessful development project. For the second site, the compensation requirements were not pre-specified.

On October 20th, the municipality received four development proposals for the first site and three proposals for the second site. For the first site, the “winning” developer, Chertoyanov, was selected on October 28th. Development plans suggest that a total of 30 units will be developed, 9 of which will be given to the municipality along with a portion of the ground floor commercial and garage space. The “winning” developer for the second site, Informat, was selected approximately one month later on November 24th. Only 11 units will be developed on this site, 3 of which will be given to the municipality along with some ground-floor commercial space. Construction on both sites is expected to begin in early 1995.

Summary

By January 1995, only 13 months after the initial workshops, the three municipalities of Bourgas, Rousse, and Stara Zagora prepared and released RFPs for 10 sites. Developers had also prepared and submitted proposals for all of the sites, except the two outlying parcels in Rousse, where the minimum compensation requirement of 20 percent was deemed to be too high. In total, the demonstration project promoted the creation of eight public-private partnerships for the development of more than 300 housing units plus additional office, retail, and garage space in the three participating municipalities. The status of the development projects proposed as part of the demonstration project, as of January 1995, is summarized in Table 1 on the following page.

In February 1995, the PADCO team organized a National Conference on Public-Private Partnerships, which served as the capstone for the demonstration project and the conclusion of the technical assistance to the three municipalities. The Conference, which was held in Sofia, served two purposes: 1) to provide municipal officials and private developers from the three participating municipalities the opportunity to share their experiences in creating public-private partnerships; and 2) to assess how the process could be improved and to highlight the legal and policy reforms required to support the transition toward a private, market-based housing delivery system in Bulgaria.

The Conference attracted more than 100 participants from throughout Bulgaria, including 45 municipal officials, 30 private developers, and seven national government officials. Lively discussions were held for two days on such topics as selecting appropriate sites, preparing RFPs, and preserving transparency and objectivity throughout the process. Additionally, the Conference marked the beginnings of an ongoing dialogue among municipal officials, private developers, and national government officials concerning necessary reform measures to support the privatization of Bulgaria’s land and housing markets.

5 Lessons Learned and Conclusions

In addition to producing tangible results, the demonstration project served to promote greater understanding among municipal officials and private developers in Bulgaria about how to structure successful public-private partnerships in transitional land and housing markets. The municipal officials and private developers came to learn that one of the most important ingredients for success is the perceived transparency of the process itself. Each of the participating municipalities adopted a number of precautionary steps and measures, especially during the proposal review and selection stage, to ensure that the overall process was perceived to be fair and open by both private developers and the public.

Municipal officials also gained greater awareness of how the forces of supply and demand shape the markets for land and housing. The demonstration project, for example, forced many municipal officials to view the process from the perspective of the private developer. As a result, municipal officials came to recognize the importance of site selection, the disadvantages of fixed compensation requirements, and the financial implications of requiring developers to provide infrastructure.

In the legal and policy arenas, the demonstration project highlighted the need for municipalities to both prepare and ratify local ordinances to permit the transfer of development rights on municipal properties. It also became clear that wholesale amendments to the Law on Territorial Development were needed to clarify the roles and responsibilities of the public and private sectors when it comes to the provision of infrastructure. Another important issue that arose during the implementation phase was how to structure the development and disposition agreements to ensure contract compliance by both the public and private partners in the process.

Last but not least, the demonstration project served to illustrate the importance of establishing clear communication linkages between the public and private sectors. Appraising developers of the proposed process and soliciting their input from beginning to end is fundamental to creating viable, sustainable public-private partnerships. Clearly, without the interest and participation of private developers, even the best-prepared RFP will elicit no response.

**Table 1: Status of Development Projects in Bourgas, Rousse, and Stara Zagora
January 1995**

Municipality	Site	Number of Proposals Submitted	Number of Housing Units			Area (in square meters)			Additional Compensation to Municipality
			Total	For Developer	To Municipality	Site	Foundation	Gross Building	
Bourgas	43A	8	39	26	13	1,545	816	3,618	Commercial, garage, and office space
	43B	6	60	40	20	1,332	874	4,940	Commercial, garage, and office space
Rousse	A	3	—	—	—	550	480	1,920	Six housing units off-site
	B	0	—	—	—	1,000	—	—	—
	C	0	—	—	—	980	—	—	—
	D1	4	68	44	24	N/A	1,153	7,704	See below
	D2	4	—	—	—	8,000	5,000	22,000	Commercial and garage space
Stara Zagora	A	4	30	21	9	600	432	2,853	Commercial and garage space
	B	3	11	8	3	300	200	726	Commercial space

Notes:

1. In Bourgas, Sites 43A, 43B, and 43C are contiguous and development rights were awarded to three different developers.
2. In Rousse, Site A (located in the central city) will be developed with commercial uses and the developer will provide the municipality with six housing units (off-site) as compensation for the development rights to the site. No proposals were submitted for Sites B and C, as developers considered the 20 percent minimum compensation requirement to be too high. Sites D1 and D2 are not contiguous, but were linked together in the RFP; Site D1 will predominantly consist of residential uses, whereas Site D2 will predominantly consist of a parking garage.
3. In Stara Zagora, Sites A and B are not contiguous and development rights were awarded to two different developers.

Annex 3:

Public-Private Partnerships in Transitional Land and Housing Markets

Case Study from Ekaterinburg, Russia

Mark Brown and Lee Baker²

Following the tumultuous socio-economic-political changes that swept Central and Eastern Europe and the Soviet Union during the late 1980s and early 1990s, the United States Agency for International Development (USAID) pursued in 1993 and 1994 the formulation of technical cooperation programs that assisted a number of municipal governments in the promotion of the development of land for housing through the use of public-private partnerships. This case study provides a brief review of the Ekaterinburg “Land for Housing Demonstration Project.” The demonstration project consisted solely of technical assistance and did not include any financial resources to support the delivery of land for housing. The real credit for the success of the project rests with the municipal authorities who realized the potential of the concepts, adapted them to meet their own needs, and developed a uniquely local process to achieve their own goals and objectives.

1 Overview

With the renewed possibility of private ownership, land and housing markets are growing fast throughout Russia. Yet today few Russians have much experience buying and selling land, and even theoretical information about the functioning of land markets is scarce. Nevertheless, public officials and administrators, together with builders and developers are gaining this essential experience, together with the realization that the transition to the market economy requires new tools and techniques, and new ways of doing business together.

In 1992, the city of Ekaterinburg requested technical assistance from USAID to “stimulate housing construction from non-budget sources.” A feasibility study conducted in early 1993 (PADCO 1993) identified the lack of housing finance and poor access to land as the most significant obstacles to restructuring and growth of the construction industry, and the emergence of private land and housing markets. The Land for Housing Demonstration Project implemented in 1993-94 set the objective to improve developers’ access to land by selling municipal sites through an open and transparent process of competitive tendered bidding.

Although land sales and even private ownership of land were then highly controversial, the project culminated in the sale of development rights (convertible to private ownership) to a private developer, who subsequently completed the first townhouses built on the site in January 1997. The city budget realized more than \$140,000 from the sale of 1.1 hectares of serviced land. In addition, five families that had occupied substandard housing as municipal tenants on the site were relocated to modern apartments at the developer’s expense, thus increasing the value of the sale to the city as these families were then removed from the housing waiting list.

² Mark Brown was PADCO, Inc.’s project manager for the Ekaterinburg demonstration project. Lee Baker led PADCO’s early initiatives in Central and Eastern Europe and the former Soviet Union.

The city conducted a second round of tenders in 1994, but could not sell the five parcels that were offered because the city undercut land sales by continuing to give away land at virtually no cost, compounded by the mistake of overpricing the parcels that were offered for sale. While developers continued to express interest to bid and pay for sites, the city administration continued free-of-charge allocation throughout 1994 and 1995, rather than adopting a demand-driven market strategy. Nevertheless, municipal officials learned how to sell land by competitive tender, and numerous builders and developers learned to estimate land prices and prepare competent bid proposals.

Equally important, the demonstration project introduced public sector officials to the new “market reality” in which the city must develop a new relationship with the emerging private sector — investors, developers, and builders — in order to assure adequate housing for residents.

2 Background and Context

The project is sited in Ekaterinburg (the old Sverdlovsk) in the heart of the Urals. The Urals region stretches roughly from the River Volga in the west to Siberia in the east, and comprises five oblasts and two autonomous republics in an area larger than Ukraine. With a population of roughly 20 million inhabitants, the region is important commercially, owing to its rich mineral resources and well-educated workforce. Founded in 1723, Ekaterinburg rapidly became the centre of the Ural’s mining and metallurgical industry. As a major waypoint for east-west surface transportation, the city grew to become an important hub of industry, commerce, and banking. During World War II, many defense and civil industries were relocated to Ekaterinburg. Today, with a population of 1.6 million, Ekaterinburg is effectively the capital of the Urals region, home to industry and commerce, research, and higher education, and seat of government administration. The skilled workforce and relatively high standard of public infrastructure endows Ekaterinburg with great opportunity for economic growth as Russia joins the global economy. Land and housing — and the real estate market — have important roles to play if Ekaterinburg is to capitalize on its economic development opportunities.

2.1 Land

As the most valuable public asset, the city’s land is a public wealth requiring careful management. Conservative local officials argued against selling land into private hands, but even in 1993 there were others who recognized that the continued development of new housing would require the participation of the private sector. It was also understood that a well-designed and -executed program of land sales could contribute significantly to the municipal budget.

However, prior to *perestroika*, there was no market in land, which was almost exclusively in public ownership. Nor was there a market in development rights, except that they were occasionally transferred between state enterprises in exchange for undisclosed, probably illegal payments (cash and in-kind). A limited form of “ownership” was authorized by which the City Soviet could allocate small parcels of land only to individuals, with rights to inheritance, but with the restriction that the land may only be sold to the City Soviet.

However, the most common way of providing land for housing construction was in the form of administrative allocation, which was at zero cost and for “perpetual use rights.” This was a very insecure form of tenure, ill-suited to the needs of private developers. The system of land allocation

was designed to serve the interests of large municipal and state-owned enterprises and the city's Construction Department. Following the destruction of World War II, demand for high-volume housing reconstruction led to an approach best characterized as "mass production," of which the land allocation process was an integral part. Important characteristics of this approach included:

- ? state enterprises obtained funds for housing construction from the state budget via their controlling ministries;
- ? the sites and projects were typically very large — some comprising entire districts or "microraiions" — suited to the construction of large high-rise apartment buildings;
- ? such sites were allocated unserviced to large developers capable of installing the necessary trunk and on-site infrastructure networks;
- ? no price or value was attached to the land, which was allocated free of charge to the developer (with exactions, as above);
- ? land was allocated to the enterprises in "temporary use rights" during the site development phase, with the right of renewal once the foundation was built, and converted to "perpetual use rights" with the completion and occupation of the housing; and
- ? little flexibility or discretion was allowed the developer on the location and timing of development, and the planning and architectural design of the housing.

The maneuvering of the parties to identify and control sites and the negotiation of exactions resulting in the administrative allocation of land was more like a sumo wrestling match than a free-wheeling game of Monopoly.

Interviews with private builders and architects and with the city's Chief Architect revealed that no private firm had ever successfully completed the formal allocation process, though several private construction firms possessed parcels in "perpetual use rights," which had been allocated prior to the privatization of these firms.

In July 1993, the Parliament of the Russian Federation (RF) approved the "Fundamentals of Land Legislation," which authorized land ownership by private individuals, the state, and municipalities, and which allowed land to be bought, sold, and mortgaged "in strict accordance with Russian legislation." Furthermore, following the failed "parliamentary coup" of October 1993, a new Presidential Decree reinforced these rights.

2.2 Housing

In 1992, the housing stock in the RF was almost exclusively in public ownership — by appointed and elected bodies of the federal and oblast government, by state enterprises, and by municipalities. Only a few percent of housing units were privately owned, mainly substandard traditional wooden housing lacking modern conveniences. In five years, starting from 1992, more than 30 percent of the housing stock was privatized, reaching roughly 40 percent in private ownership by 1996, when the rate of new privatization started to decline. Municipal governments remain the largest single owner of housing, partly comprised of the residual non-privatized municipal units, plus the mass of former enterprise-owned housing that has been transferred to them in the course of the restructuring and privatization of state enterprises.

The average size of a housing unit is 52.3 m² gross, or 33.3 m² net or “living” area excluding kitchen, bathroom/toilet, and hallways. The average gross area occupied per person is 16.2 m². Fully 56 percent of 500 households surveyed in 1994 responded they were either “relatively dissatisfied” or “definitely dissatisfied” with their housing conditions, with insufficient space and inadequate services being the leading sources of discontent (PADCO/ExMedia 1994).

The number of households in Ekaterinburg was estimated in 1993 at 486,000 (1,370,700 persons within the formal city limits, average household size of 2.82 persons). Of these, some 28 percent of households were registered on housing “waiting lists” as of June 1993. Any household suffering overcrowding and/or substandard housing quality was entitled to join one of the lists kept by the city and larger enterprises. “Overcrowding” is defined as less than seven square metres of living (net) area per person, or sharing of any flat by multiple families, and flats shared by more than one generation of the same family. “Substandard” flats are those that fall below minimum sanitary and technical norms, for example, those lacking piped water or sewerage.

The waiting lists do not provide a very accurate estimate of demand for new or improved housing, because of possible duplication and because the enterprises ceased to report this information to the city’s Department of Statistics. Many enterprises also terminated the waiting lists, especially during privatization of the enterprise and transfer of the housing stock to the city. Yet, they are another indication of unsatisfied demand for more and better housing.

2.3 Construction Sector

Beginning with the state privatization programs in 1992, there was massive restructuring and privatization of the construction industry. At the same time, a rapid decline of public (state and municipal) investment in new housing construction seriously eroded new public sector construction by 1994. The result was a change from a few, very large construction companies (or kombinats) to many firms of various types and sizes, many of them taking on the new role of housing developer. Thus, there was in 1993 an emerging housing developer industry with little or no experience in a market environment.

3 Conceptual Framework for the Project

An analysis of the local housing resale market conducted by PADCO in 1993 (*ibid.*) confirmed that land does have substantial value in Ekaterinburg, and that land values already responded to the same factors that would influence value in the marketplace. Interviews with builders and developers, plus anecdotal evidence, indicated that individuals, firms, and enterprises were beginning to invest in new housing construction in the private sector.

However, no land market existed since virtually all land was held in public ownership. Furthermore, the existing system of allocation of development and use rights favored large, public sector kombinats rather than the emerging smaller, private sector builders and developers. It was concluded that sale of vacant land for housing development could simultaneously stimulate the construction sector and generate revenues to the city budget. But several constraints were recognized:

? inability to sell land outright to developers;

- ? lack of experience by developers in calculating price to bid for land;
- ? lack of experience by city administration in proactive approaches to land disposal; and
- ? cumbersome system of land use and architectural controls.

3.1 Goals and Objectives

With these constraints in mind, the project (called the Land for Housing Demonstration Project) was designed with the goal of facilitating the private sector housing development industry. In conducting the ensuing sale by tendered bidding, the Ekaterinburg city administration adopted and publicized the following specific objectives.

- ? Promote private sector housing construction:
 - ? Increase options in the local housing market;
 - ? Stimulate the local economy; and
 - ? Harness the efficiencies of the private sector to improve housing conditions, reduce prices, and raise quality.
- ? Accelerate investment in construction:
 - ? Support private sector builders and developers while stimulating the development of the private housing sector;
 - ? Reduce barriers to entry of small firms into the market;
 - ? Demonstrate the profitability of the housing development industry;
 - ? Attract private capital to housing construction; and
 - ? Expedite land allocation procedures in order to accelerate the construction process.
- ? Capitalize on the value of land as a source of public revenues. Land is the city's largest unencumbered asset, yet it contributes virtually nothing to the city budget. The city administration desired to maximize the revenues generated from the sale of development rights.

The resulting project was therefore designed to assist the city administration in the adaptation of the land allocation process to better suit the evolving nature of the housing market and the construction industry. In essence, this meant taking steps to establish a land market.

3.2 Approach and Process

At the time the demonstration project was designed, land could not be sold outright to a developer (or any private firm). This significant limitation was subsequently removed by Presidential Order only in September 1993. This inability to actually sell the land had several implications for the demonstration project.

- ? The city would sell development rights, giving the developer a temporary form of allocation, with the right to convert to fee-simple ownership at no further cost.
- ? The existing process of allocation would be modified incrementally to better accommodate the needs and motives of private sector developers.
- ? Within the bounds of current legislation, the land rights to be allocated should be as close as possible to fee-simple absolute ownership.

The approach that resulted was to sell development rights by competitive tender in response to the city's request for proposals. Bidding was open to any Russian person (legal or natural), with bid proposals submitted to the City Architect's office in sealed envelopes. The RFP process has been the mainstay of property disposition for public agencies and for urban renewal in the United States and elsewhere, as it enables the consideration of a wider range of objectives than price — for example, type of use, design characteristics, and project feasibility. It also shares more similarities with the prior Russian system of land allocation in which a city exercised considerable control over the terms of the allocation. This has the advantage of familiarity to municipal authorities and developers (potential bidders) in Russia. In the early stages of a land disposal program, when it is important that the ensuing construction projects are successful, or where a city aims to achieve several different objectives, the RFP process is likely to be the best choice.

The Ekaterinburg authorities promised bidders that the rights purchased by the winning bidder would convert to outright (fee-simple) ownership on either of two conditions: (a) change in federal legislation allowing private firms to own land for the purpose of housing development or (b) sale of the constructed housing to owners who would then under legislation already in effect be able to obtain title to their land parcel.

The process by which the tender was prepared and executed was divided into roughly three phases.

- | | |
|---------------|---|
| Preparations: | Define the Objectives (ideally taken from a land management strategy) |
| | Define Management Structure for Tender |
| | Select Sites |
| | Obtain Owner's Approval (i.e., the city) |
| | Obtain Planning Permission (APZ) |
| | Design and Conduct Publicity Campaign |
| | Prepare Tender Documents |
| | Set Evaluation Criteria, Process |
| | Set Reserve Price |
| Bidding: | Hold Bidders' Conference |
| | Distribute Tender Documents |
| | Training Course for Bidders |
| | Receive Bid Proposals |
| | Close Bidding |
| Selection: | Evaluate Bid Proposals |
| | Notify Winner(s) |
| | Negotiate Sale |
| | Award Sites (Resolution and Contract) |
| | Register the Planning Passport to Buyer |

4 Results and Findings

4.1 Results

The city offered two adjacent sites totaling 1.1 hectares, authorized for construction of low-rise townhouses mixed with apartments. The two sites were well-located in the city's popular southwest district, with excellent access to public transportation and other amenities. The sites had essential infrastructure located in the adjoining streets. The sites were flat, and could easily be developed without the need for extensive site preparatory work.

The city's RFP required that the sites' developer be responsible for removing all existing structures (housing and garages) to one or more new sites identified by the District Administration. The city administration agreed to evict the occupants and/or owners of all temporary garages no later than the date of issuance of the letter to start construction. The RFP also stipulated that the developer was responsible for relocating, at his/her own expense, those families that legally occupied obsolete housing on the sites in compliance with existing regulations. Following relocation, the developer was responsible for demolition and removal of the obsolete housing. The RFP approved (as defined in the APZ) new construction for mid-rise townhouses and/or apartments not exceeding four floors in height, with built-in or adjacent garages.

The sites were advertised in the local and national print press, and more than 20 sets of tender documents were taken by prospective bidders at a public bidders' conference. More than 30 representatives of local builders and developers then attended a five-day training seminar. Five bids were received (all bids were for both sites). The city negotiated with two bidders and then allocated the development rights to the successful bidder, the private developer "UralMonolit." A contract was signed specifying the conditions of sale and a payment schedule. The developer made full payment for the sites, and fulfilled the conditions of relocating temporary garages to alternate municipal sites and provided good-quality replacement housing for municipal tenants who had occupied substandard housing on the sites. The first units (of 55 total) were completed in January 1997.

Major achievements of the project include:

- ? the city adopted an active approach to dispose of land in the local market;
- ? a new form of housing — townhouses — was authorized, and developers were given increased flexibility to propose designs suited to the preferences of buyers in the market;
- ? developers competed on price, submitting well-prepared bid proposals in response to a structured set of tender documents;
- ? the sale price for the sites was roughly 4.5 times the "reserve price"³ set by legislation, resulting in a new source of revenues to the city budget (at the time of sale, the price was equivalent to the cost of roughly 15 typical new apartments built by the municipal developer, or equal to the value of 23 apartments of average size and price trading on the local resale market); and

³ The "reserve" or "start" price below which the city would not sell the parcels was announced in the RFP (47 million Rubles, equivalent to US\$34,500). Federal legislation "On Payment for Land" (adopted 11 October 1991) dictates that the reserve price should be calculated as 50 times the land tax rate for the parcels (the tax rate itself is calculated by formula).

- ? the contract signed between the city and the private developer — for the sale of development rights convertible to ownership — was the first such contractual land sale of public land in Ekaterinburg, if not in Russia.

Following the success of the 1993 demonstration project, the City of Ekaterinburg offered five other new sites, designated for residential development, to be sold by competitive bidding in the third quarter 1994. By this later date, the new Constitution of the RF and other new federal legislation permitted land to be leased to developers, who would compete through a process of tendered bidding or auction.

4.2 Findings

The process successfully executed by the city contains several landmarks in the evolving relationship between public and private sector participants.

First, the city took a proactive approach to identify, promote, and sell the sites, using the 1993 Feasibility Study as a proxy for a more complete land strategy. Prior to this, the city had played a passive role, more typically waiting for state enterprises to ask for suitable sites for their projects. This marked a fundamental shift in the perceived role of the city in the housing development process, by acknowledging the need to attract and collaborate with outside partners.

Second, the city for the first time approved an Architectural and Planning Passport (called the “APZ”⁴) without first identifying the specific allottee for the site. In fact, the city sold to the developer the entire pre-approved APZ, giving the developer the right to develop the site within a specified design envelope. This was significant because it removed much of the uncertainty confronting developers under the old system of land allocation.

Third, the parameters specified in the APZ gave the developer greater freedom to determine what to build on the site, responding to market demand and consumer preferences. The tender documents thus clarified the developer’s rights and obligations, while reducing his risks by giving the freedom to adopt the design best suited to the perceived market. When the city offered five more sites for sale or lease in 1994, an even more flexible approach was adopted in which the APZ contained a simple description of the permitted uses and parameters of development on the site: “in accordance with the functional zoning of the neighborhood, the parcel is designated for housing construction . . . kind of construction: high density, 2-3 storey housing construction . . . underground or built-in garages (in house) shall be designed in accordance to the customers’ decision (design) . . . it is reasonable to use individual (non-standard) designs.”

Fourth, private developers were given training (by PADCO) in methods of formulating project proposals for private sector housing projects. The training was also designed to help bidders prepare

⁴ The APZ is the document that conveys the approval of the local authorities to develop a site. It defines precisely the type of uses permitted and project parameters, such as footprint, floor area, and volume. It specifies where and how the project is to be connected to existing infrastructure networks. The applicant traditionally would have had to obtain at least 20 separate approvals in order to validate the APZ, many of them requiring negotiation and payment of fees, exactions, or other payments.

high-quality bid proposals and to better calculate the bid price and to better understand how to calculate realistic land prices. Staff of the City Architect's office also attended the training course to gain insights into how developers operate in a market environment, as well as into other factors, such as location, ease of developing the site, speed of permitting, which affect land value and pricing in a market setting.

Fifth, the city agreed (by sale contract and Mayoral Resolution) to convert the development rights to ownership rights at a future date (ownership by the developer or by future owners of the housing units), thus greatly increasing the developer's security of tenure over the site. In the second 1994 tender offering, the city had more legal latitude, and offered several sites for long-term lease and several for sale into freehold.

Finally, the city made a conscious effort to conduct a fair competition and a transparent selection process. In addition to describing the sites and the development conditions, the RFP also clearly explained the bid procedures and bid evaluation criteria. Bidders were encouraged to attend the bid opening, at which the names of bidders and price offered by each were read out and recorded by the Evaluation Committee. In the 1994 offering, the requirements of the bid proposal and the evaluation criteria were greatly simplified, further lowering the cost of participation by bidders.

4.3 Success Criteria

4.3.1 Increase Supply of Land and Housing

Together, the above important milestones show a transition to market principles and to a more equal collaboration between the public and private parties involved in the transaction. As a partnership between the public and emerging private sectors, it is useful to note the contributions made by the two parties. As a public sector participant, the city accepted and encouraged private sector involvement in housing provision, and adapted its procedures and principles accordingly to make the transaction work and succeed as a model. This, in turn, increased or accelerated the supply of housing in the local markets. The developer made an in-kind contribution of new (low-income) apartments to replace existing substandard housing, and is now in the process of building and selling 55 high-income townhouse units. Furthermore, with the cash revenues it received, the city could prepare other sites for sale.

4.3.2 Improved Efficiency of Urban Land Markets

Dowall (1993) identifies six "important conditions" for competitive and efficient land markets: "Well-defined property rights; voluntary participation; many buyers and sellers; free entry and exit; perfect information; and similarity of product."

Ekaterinburg's demonstration project made progress when measured against most of these conditions. Although property rights were not sold in fee-simple absolute, the city did its best to guarantee future conversion to ownership within the confines of restrictive and changing federal legislation.

The competitive tender approach adopted by the city significantly reduced the barrier to developers bidding for land, and leveled the playing field for small private developers to compete on equal terms

with large construction kombinats. Five bidders participated in an open, transparent process, which stands in stark contrast to the administered allocation system of the Soviet era.

4.3.3 Improved Access to Land for Low-Income Groups

While the demonstration project did not explicitly set out to improve access to land for low-income groups, low-income housing was provided as a by-product, as mentioned above. In fact, the tendered bidding process can be used by a city to select developers for low-income and other public housing projects.

4.3.4 Basis for More Productive Relationship between Public and Private Sectors

The process of selling sites substantially increased the understanding of city officials of what is required to attract the interest of private developers. They gained unprecedented (in Russia) insight into the operation of the land market, and both sides learned useful techniques for setting land prices. The success of the 1993 sale demonstrated the commitment of the city to support emerging private developers, just as the solid performance of the winning bidder in making payments and developing housing gave the city confidence that the private sector can be a useful and productive partner.

One of the keys to develop this trust between the partners was to demystify as much as possible the bidding and evaluation process and the methods of estimating land value. A climate of uncertainty and lack of understanding of motives and market principles previously led each side to distrust the other and to assume that the other brought unknown (perhaps sophisticated or devious) skills to the negotiating table. Great care was taken to clarify the city's objectives, procedures, and criteria through the bidders' conference and the bid opening and in the preparation of the tender documents. The training course offered jointly to builders and developers and to city officials served to bring all participants to a common level of understanding of land value principles. Thus, the demonstration project established a more sympathetic environment for future partnerships.

5 Lessons Learned and Conclusions

Several "lessons" mentioned above bear repeating here, including:

- ? the importance of coaching both public and private participants through the process;
- ? the need to demystify the process in order to develop mutual understanding and trust; and
- ? the critical need for a sound technical approach — for example, the development of a workable legal basis for the land transfer and its control by the developer; developing an understanding of local demand for land and housing and the sources of finance for new construction; and strong emphasis on land value and pricing techniques.

Equally important lessons were learned from the failed 1994 land tender. Five sites were offered for sale or lease following an advertising campaign that included local, regional, and national newspaper ads and a direct mail campaign to approximately 150 firms. Sixteen sets of tender documents were given out at a press conference and two were later mailed out in response to direct requests made to the Chief Architect's office. There was apparently considerable interest on the part of developers to acquire new sites, but no bids were received by the deadline.

Interviews with several firms that obtained tender documents indicated that a primary reason for not bidding was the developers' sense that increased construction costs and uncertainty about the obligation of the developer to pay a further 33 percent infrastructure fee⁵ rendered development financially infeasible at the city's declared reserve price. In other words, the city overpriced the sites because it did not adequately consider developers' costs for site clearance and consequently the reserve prices set by normative formulas were not attractive.

In order to obtain a favorable response from developers, it appears necessary to reduce the prevailing cost of development. This goal should be equally of interest to the city, to developers, and to residents. Several of the factors that contributed to the high cost of development are either directly or indirectly under the control of the city administration. The following techniques to reduce costs were suggested in a diagnostic/review meeting following the failed second tender.

- ? First, reduce the reserve price by reconsidering how it is calculated. The objective in setting reserve prices should be to maximize the **revenues** to the city, not to maximize the **price**, which may simply result in overpricing land and undermining the bid process. In principle, each site should be priced according to its unique characteristics and in light of current market conditions.
- ? Second, by substantially reducing or eliminating the infrastructure fee, development costs and risks would be reduced and the sites would be more competitive with sites for single-family homes, which appear to appeal to the same affluent market.
- ? Finally, provide a staged, rather than single, up-front payment of the lease or purchase price. Even where the payment is indexed, the ability to spread the payment over time should increase affordability of the land to developers.

The pricing problem could have been reduced or eliminated, too, if the city had taken more care and allowed more time when calculating the reserve prices. This lapse stemmed partly from insufficient staff resources devoted to the second tender. As a result of underestimating the time and effort required to implement the process, the city paid too little attention to detail and made the critical error of not evaluating the reserve prices from the developers' perspective. This was done in retrospect at the diagnostic review by comparing the price and conditions of the sites to the sites sold in the previous year. It then became clear to technical staff in the City Architect's office that the sites were overpriced.

Finally, the sale of land should ideally be part of a municipal land strategy, formally adopted and firmly supported by local officials. In Ekaterinburg, the policy environment was confusing and at times contradictory. The city was not prepared to take the difficult policy position to stop giving away parcels, even as it sought to sell others. If the policy environment is not consistent nor consistently applied, then the overall effort may be undermined.

⁵ With the emergence of a private develop industry, many developers were required to pay a fee to cover the city's capital investment in off-site infrastructure. These fees reportedly ranged as high as 60 percent of the costs of a project. In Ekaterinburg, developers had balked at paying such fees at the time of the tender, and the City Council was debating whether to reduce the fee.

In a more strategic vein, the disposition of public land should be linked to an economic development strategy so that the city can achieve a wider impact over a longer time horizon when disposing of land that is effectively a finite asset. Russian cities do have considerable experience leveraging exactions in exchange for planning permissions (although sometimes the practices border on the illegal). However, they typically focus on narrow, short-term public benefits, such as requiring the builder to contribute public goods, for example, a district heat step-down station or the paving of roads. While this is an effective approach to generate capital investment, the use of land can play an equally vital role in the local economy, for example, by facilitating industrial relocation or attracting new types of industry to diversify the economic base.

Some constraints to replication have diminished since 1993. Notably, Russian law now allows the sale of leasehold and freehold interests. The approach developed in Ekaterinburg — an RFP and competitive tender — has been used with some success by other Russian cities.⁶ Perhaps the biggest change has been the rapid development of a market in small unserviced sites, usually located on the peri-urban fringes. These parcels, which were allocated free of charge for “individual private construction,” trade at low prices as a result of their abundance and the lack of basic infrastructure.

The demonstration project conducted in Ekaterinburg focused on improving developers’ access to land to support the emergence and growth of land markets and the private construction industry. The project devised and demonstrated land disposal methods oriented to the private market, using competitive tendered bidding to set a market price for the parcels. Private developers were trained to calculate realistic bid prices and to prepare competitive bid proposals. As a result, the city and a private developer signed a contract for the sale of development rights, convertible to ownership — the first such contractual sale of development rights in Ekaterinburg, perhaps in Russia.

The project was conducted in an unsettled political and economic environment, which complicated the pursuit of goals and objectives. Issues such as the privatization of land were politically charged, and government bodies at all levels had yet to articulate clear policies for reform in this sector.

Yet the project was successful in bringing politicians, administrators, and technicians together with their private sector partners — builders, developers, and investors. Jointly, they gained valuable experience with the development of housing in a market economy. By helping demystify the issues and techniques of land development, the project elevated the mutual understanding and trust of the public and private sector participants. The result is a new approach to development in which public and private resources can be put to productive use. The city, rich in land but strapped for cash, started to collaborate with the private sector in order to house its residents and establish conditions for economic growth.

Additional evidence of growing openness toward private developers came in the city’s formulation and adoption in 1995 of a new set of “Rules for Urban Development” designed as a handbook to facilitate the development and construction permitting process. The authors of the plan, several of

⁶ A 1995 \$400 million World Bank loan supports the emergence of private land markets in several other Russian cities (St. Petersburg, Tver, Novgorod, Nizhny Novgorod, Bernal, and Moscow) by servicing and auctioning land by competitive bidding to contribute to the production of 30,000 new dwelling units.

whom participated in designing and conducting the land sales demonstration project, intentionally set out to provide a single volume containing all the rules controlling development in the city. Only a few years ago, such a document would have been restricted as a State secret. The very fact that it was prepared and published indicates a new willingness of the city to collaborate with private partners.

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Annex 4:

Working Paper for Polish Gminas: Land Management and Strategic Planning

Jerry Erbach⁷

1 Introduction

Traditional spatial “master” planning has not often achieved its expected results, a result that is commonly due to the lack of common understanding, even among local government officials, about the “meaning” or purpose of the plan. Although an “approved” plan is presumed to be a city government’s “official” position about land use and its development, individual agencies frequently interpret the plan in their own way. The perspectives of the city planner about the value of various aspects of the plan, for example, may be very different from those of other city officials, departments and/or implementing agencies. In addition, private sector actors who may know something about overall plan requirements, may also disagree with and/or basically disregard its specific directions.

Experience has also shown that any type of plan will likely lose its capacity to reflect local values and to motivate positive compliance their is active participation and involvement of all elements of the local community in its formulation. The strategic planning approach is based very much on the market-sensitive perspective which it encourages. A local process, based on a perspective that is able to deal creatively with the pressures of urbanization, often leads to a very effective land management strategy.

The following strategic planning process is suggested as a means to resolve some of these problems. It is designed to be an ongoing, transparent and flexible process which can generate a maximum amount of community support.

2 General Description of the Process

The strategic planning process specifically helps a city to develop a future vision of itself and to understand the full range of choices that can be made to achieve this vision. The city can then elaborate an action plan based on this vision and choices.

The process is characterized by:

- ? a thorough assessment of the city’s basic strengths, weaknesses, opportunities and constraints;
- ? the consideration of important events and changes that are taking place around the city that present additional problems or opportunities; and
- ? a focus on strategic issues;
- ? the explicit consideration of resource availability; and

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- ? an orientation towards action planning with a strong emphasis on practical results.

Effective strategic planning aims to define appropriate long-term directions for positive city change and a short-term operating framework through which specific changes can be achieved. The effective combination of strategic and action planning make it possible for the city to maintain a development balance between its economic, cultural and physical environments and at the same time, to optimize the use of existing resources in response to new opportunities.

Strategic planning is a conscious approach for broad-based innovation based on the continuous updating of information and the highly responsive formulation and adjustment of the overall strategy.

Involvement of the general public, interest groups, and various government agencies in all phases of the process is one of the keys to stimulating this type of planning process and to achieving the necessary consensus. A variety of links to city residents and agencies must be established in order to generate mutual understanding and trust among the often very divergent interests.

3 Basic Steps in the Process

The basic steps in the strategic planning process include the following (these steps can be modified).

3.1 Development of a Plan for Planning

Both public and private sector participants in the city's development should be involved in developing the basic framework and approach to be used in the strategic planning process. A strong commitment to the process and its success can only be achieved if all those involved in the city's development are included from the start.

The overall process will involve a number of basic steps. These will include:

- ? establishing Working Groups at both the functional (e.g. land, housing, finance etc.) and neighborhood levels, as well as a Core Group made up of key officials and citizens to interface with the City Council. The Working Group on land, for example, will be concerned with assessing land markets, land values and land development potentials within a city. It will develop the land management strategy and prepare action plans to implement the strategy. The Core Group will receive the work of the Working Groups and essentially "validate" their recommendations prior to their formal approval and implementation. The Core Group will be a senior level group responsible for proposing regulatory and policy changes and improvements.
- ? identifying the most appropriate spatial planning "tools" that can be used in dealing with land development issues. The development and use of appropriate land development tools can play an important role in creating a positive atmosphere for land development and investment by helping the city to focus on opportunities rather than on constraints; and
- ? preparing operational guidelines for the implementation of this city-specific spatial planning approach to actual land development within the city.

The resulting strategic planning process is geared to generate a range of outputs through the operation of dynamic components that can be applied in response to changing circumstances.

3.2 Review of Agency Mandates and Stakeholders' Values

A complete review of agency mandates and stakeholder values should be carried out at the very beginning of the planning process. A clear understanding of the mandates and actual activities of the various participants in the city's land development is essential. Stakeholders and agencies staff will make up the multi-disciplinary working groups necessary to the strategic planning process. The creation of functional working groups, however, should create a positive atmosphere of working "through" rather than "for" specific agencies and institutions.

3.3 Assessment of the External and Internal Community Environments

The current planning challenge is to create and maintain communities which are affordable, efficient, scaled to human proportions and environmentally sound. An integrated assessment of both the external and internal environments surrounding a community should be used as the basis for identifying strategic issues and for setting the public agenda. Consequently, a thorough understanding of the internal and the external strengths and weaknesses possessed by the city as it attempts to address these strategic issues is essential.

Assessment of the internal environment will focus on current conditions, emerging trends and future prospects. In order to carry out this assessment, it is important to understand both the successes and failures of the past as a means of providing suggestions and alternatives for the future. The city's political, physical and economic development over the life span of current generations and the impact of the pattern of development based on current zoning practices should be thoroughly studied.

The strategic planning approach is also oriented towards a wider environment that extends beyond the city's administrative limits and/or planning boundaries. Assessment of the external environment will include an analysis of regional forces and trends acting on the community, demographic projections and patterns of migration, and competitive and collaborative forces which impact on economic productivity.

3.4 Identification and Analysis of Strategic Issues

A thorough assessment of the major issues that are likely to influence future city and land planning, management and decision making must be made.

The following broad categories of issues could be used as a basis for this assessment:

- ? economic development
- ? local government effectiveness
- ? infrastructure and urban design
- ? shifts in revenue sources
- ? quality of life
- ? housing
- ? transportation
- ? demographics

- ? land use
- ? education
- ? technology
- ? environmental quality and energy conservation

The use of predefined categories in order to determine the strategic issues facing the city will facilitate the gathering and filtering of data and help in the building of necessary consensus. The focus, however, should always be kept on the critical issues for which precise statements of objectives and actions can be made and for which creative approaches can be developed.

3.5 Determination of a Common Vision for the Future and Critical Success Factors

Strategic planning requires that a clear and common vision of the city's future be established. A wide range of viewpoints should be incorporated into the process in order to effect real choice. Widespread participation not only helps the planning process to work more smoothly, it also provides the only insurance that community preferences will be considered in the many choices made by individuals about where they live and work.

The common vision to be developed should provide the specific images of places and land use patterns that are positive and acceptable to the community. The probability that the city will experience the quality of growth it desires will improve as the vision of the plan to be followed becomes clearer and more understandable to a greater number of citizens. One common tool that is often used to development this vision is a City Uniqueness Plan. This analysis and the resulting maps include components for natural, cultural and visual systems.

The purpose in analyzing natural systems will be to understand the basic aspects of the natural environment which have the greatest effect on town character. Cultural systems which affect town character can include:

- ? historic phases of town growth and changes in land use;
- ? existing public and quasi-public infrastructure;
- ? existing land use;
- ? existing zoning;
- ? new development proposals;
- ? own organization and shape;
- ? activities and behavior streams; and
- ? public areas.

Visual systems result from human interaction with the landscape. They too are important in shaping and understanding a city's image or character. Composite maps will be made by overlaying the various maps of these elements. Final composite maps will be made to indicate the town's uniqueness and the basic directions in which future city growth and development should take place.

3.6 Setting of Goals and Development of Strategies

Strategies are general approaches used by organizations in achieving their objectives and in resolving critical issues. The results of goal setting and strategy development provide the general policy directions on which to base detailed planning and management decisions over a multi-year period. Specific goals, objectives and strategies related to the development of a city can be elaborated and target figures established once a common vision of the city's future has been outlined.

Potential criteria for evaluating alternative strategies would include:

- ? public acceptance;
- ? financing;
- ? capital expenditures;
- ? long-term impact;
- ? staffing requirements;
- ? compatibility with community vision;
- ? relevance to strategic issues;
- ? cost effectiveness;
- ? flexibility;
- ? timing;
- ? client or user impact; and
- ? coordination/integration with other services and programs

3.7 Development and Adoption of an Action Plan

The resulting Action Plan should respond to a broad array of policy issues and should include practical policy and program strategies that are able to address the issues. Key focal points in the Action Plan should address:

- ? employment and economic development;
- ? population and housing;
- ? general development; and
- ? quality of life.

Activities in the Action Plan can involve: measures to strengthen and continue the planning process; developing and administering regulations; planning public investment; organizing agencies; enacting and implementing legislation; and using incentives and/or disincentives to guide urban growth and development. The Action Plan should be operational and precise in specifying budgets, scheduling activities, assigning responsibilities and quantifying the desired results. The private sector should be involved to these plans to the maximum degree.

The success of the strategic planning approach can be substantially increased when it concentrates not only on policies, tools and strategies but on relating them to a capital investment program. By linking these elements closely together, the means to guide land development become more tangible and real. The Action Plan should include cost estimates for each recommended strategy and a

schedule of priorities to be addressed within short, medium and long term time frames (i.e. within 5, 10 and 20 years).

Cost of Service Studies, Fiscal Impact Analysis, Capital Improvement Programming and Long Range Financial Planning are some of the operational planning instruments which can be called upon to make sure that the Plan is practical and useful. Descriptions of some of these instruments have been included in the readings.

Within this context, the integration of strategic planning and operational decision making through action planning should be perceived not as isolated occurrences, but as an ongoing responsibility of those who are involved. The process is used to open up lines of communication and to transform the current planning process from a reactive one to a proactive one. Continuous monitoring is required in order to provide the necessary feedback to the process.

4 Potential Land Oriented Tools that Can be Incorporated Into the Action Planning Process

Land oriented tools which the city might use to encourage or discourage development can be described as follows:

Examples of Tools Which Act as Incentives for Land Supply

- ? land disposition
- ? land rights
- ? land exchange with the private sector
- ? linkage
- ? land sharing
- ? subdivisions regulations
- ? land registration.

These seven tools appear to be the most appropriate in situations where the city is currently underdeveloped or where there is a significant amount of informal housing which the government wants to “regularize”.

All of these tools are designed to make more land available, although the land exchange and linkage options require the government to convey valuable urban land to a private developers in exchange for an agreement to commit some resources in underdeveloped areas. This approach is used in the United States, for example, to provide low income shelter outside of the city center.

Examples of Tools Which Act as Disincentives for Land Supply

- ? land reservation
- ? parks/open space
- ? environmental zones

- ? large lot zoning
- ? floor-area-ratio limit
- ? maximum density ceilings

These seven tools can be the most useful in situations where the city wants to limit density or attempt to restrict development in order to protect environmentally valuable land. Many of these environmentally-oriented tools are called “non-structural” solutions for pollution prevention, abatement or control. The non-structural designation derives from the fact that the land alone, rather than infrastructure is the means of addressing the problem at hand.

Examples of Tools Which Are Incentives, Stimulating Demand for Land

- ? land consolidation
- ? land pooling
- ? minimum standards to allow small lot sizes
- ? development bonus.

In some situations the “land supply incentives” may be sufficient to actually mobilize land development. For example, supply side efforts may be ineffective where land costs, location (e.g. the area where the supply is being increased may be less accessible than other alternatives, including unserved informal housing areas, so that people would rather remain where they are, closer to work) or other social, cultural or financial factors including the low incomes of intended beneficiaries are not appropriate to the needs or abilities of potential consumers.

The development bonus approach to increasing the demand for land may be an especially appropriate means of promoting interest in a marginal site, especially when one adjacent to an area with high demand/existing urban development.

Examples of Disincentives to Demand for Land

- ? land registration fee
- ? development permit fees
- ? satellite centers outside of city
- ? industrial deconcentration
- ? aggregate land holding limits

Where demand is high and supply side disincentives are not sufficient by themselves to stop the dynamic growth in certain areas, the government may have to use pricing to secure high compensation for undesirable uses which it cannot stop entirely or devise policy options to redirect the market to other locations. Deconcentrating industry and warehousing outside of an inner ring road would be an example of one of the steps that a city can take to counter the tendency of the land market to seek serviced land in proximity to transport services as a means of reducing expenses.

The differential pricing of permits is also one of the ways to reduce demand for land in some areas of a city and/or to assure that if developers are willing to pay the high price required for a permit, the city will obtain sufficient funds to provide the infrastructure needed to serve the higher density and/or more environmentally risky development. The permit fees could be earmarked for cross-subsidies in targeted low income areas.

5 Infrastructure Planning and Development Tools

Infrastructure related tools which could be used as incentives or disincentives to achieve land development objectives include:

Examples of Tools Which Are Incentives to the Provision of Infrastructure

- ? “anchor” facilities — e.g. university, hospital etc.
- ? interchanges/bus terminal/transit stop
- ? distributor roads
- ? subdivision control
- ? land readjustment

These five tools are based on the proven fact that the location of public infrastructure has a direct and positive influence on the development of nearby land (although the actual “zone of influence” will vary according to the type of facility and the extent of existing development). Regulatory controls over land development, if reasonably applied, can be used to generate infrastructure paid for the private sector.

One of the most important generators of land value is the placement of distributor roads. Road networks, either in advance of development or as a component of a public-private land development project such as land pooling, land readjustment or land consolidation will increase land values.

Examples of Tools Which Are Disincentives to the Provision of Infrastructure

- ? sewage treatment plant/prison/waste disposal site
- ? infrastructure design standard: capacity or size
- ? rights of way to achieve large plot size/low density

Although infrastructure will generally promote development and lead to increased land values, some public buildings or infrastructure will make an area less desirable for other types of land uses. For this reason, it is a disincentive to development. Consequently, it may be possible to use infrastructure to regulate development as well as using it as an incentive to promote development.

In addition to the physical location of infrastructure, it is also possible to strategically employ infrastructure standards — either with respect to infrastructure design or use — as a land development disincentive. The intentional down-sizing of infrastructure will often dictate the extent of development. For example, a 20 meter wide road will be a much more intensive development

generator that an eight meter wide road. By the same token, the sizing of rights of way (ROW) can also have a direct bearing on lot sizes and the scale of development.

Examples of Tools Which Are Incentives for Infrastructure Denial

- ? “leap frog” development prohibitions
- ? unit cost ceilings for infrastructure
- ? site standards: permits tied to density/land use

Not only will infrastructure provision either promote or retard growth, but the denial of infrastructure can have the same effect when employed strategically for land development purposes. The provision of infrastructure should follow a logical pattern of extension from the existing networks. Fringe area developments, of whatever quality, outside this planned pattern of future provision of infrastructure, will only be provided with infrastructure when the unit costs of network expansion to serve their area are within an agreed range. This affordability standard will usually occur only after development has “filled in” the area which has been leap-frogged. The incentive aspect of denial is to motivate development in an orderly manner, not to limit development per se. Therefore, in an active market, the denial of infrastructure will re-direct growth not suppress it.

Examples of Tools Which Are Infrastructure Denial Disincentives

- ? conservation/land reservation
- ? areas of critical concern
- ? development standards
- ? connection restrictions

These tools are designed for locations where the land development objective is either to absolutely restrict growth or to regulate the type of development so that there are no adverse effects from it. The tools which deny infrastructure in this manner are often a more effective disincentive to development than land use regulations. One of the tools, land reservation, may be implemented either by land acquisition or by strict prohibition of either formal or informal development on designated land.

6 Financial Planning and Management Tools

Financial tools can influence land development by using taxes or fees to either recover the direct costs of development from beneficiaries or use long-term debt as a means of allocating some of the current cost to future beneficiaries. It may also be possible to use the annual development budget as a way of allocating/denying development resources.

Financing related tools which could be used as incentives or disincentives to achieve land development objectives include:

Examples of Finance Tools Which Capitalize on Development

- ? special assessments
- ? permit fees
- ? property values/assessments
- ? full cost recovery by user charges
- ? vacant land taxes
- ? property tax administration/collections

These six tools are “incentives” for revenue generation in locations where there are either high levels of economic activity, or potential for promoting more intensive use for under-utilized land. These tools capitalize on dynamic conditions such as high value land development. The objective of the tools is to maximize a city’s financial benefits from land development.

Special assessments are used to recover infrastructure costs from direct beneficiaries, especially industrial sites. The most important requirement for the effective use of this tool is to establish a boundary within which the influence of development will occur (the special assessment area) and to prepare and apply an equitable cost-sharing formula among all properties within the special assessment area. The factors found in the formula could include: 1) the value of the land and buildings; 2) land area; 3) road frontage and 4) use. A carefully prepared formula will assure that the industrial site will bear the largest share of the cost of infrastructure construction or replacement. The city could assume none of the cost, or alternatively could pay the non-industrial share of the cost of infrastructure. The best time to apply the special assessment principle is before any permits are granted.

While some of these financing incentives may require national government approval, others may be implemented by changes in local administrative procedure. While new land would automatically trigger these opportunity oriented approaches, it may also be possible to concentrate revaluation attention on high value areas in order to maximize local receipts.

Examples of Financial Tools Which Are Development Disincentives

- ? impact fees
- ? differential tax rates/assessments based on use
- ? industrial cost recovery fee
- ? “un-subsidized” rental charges from city buildings
- ? special tax district

Land development disincentives with a relatively positive effect on revenue generation can be used in locations where the city wants to establish a “price” for land development. The logic of special pricing mechanisms is that the cost of infrastructure provision may be higher in already developed high density areas, and the effects of certain types of activity require a higher level of compensation than can be obtained through conventional taxes and permits.

The principal targets for these disincentive type tools are commercial and industrial developments. Impact fees are designed to require all new entrants into the existing system of infrastructure (water, sewers, lights, roads etc.) to pay a price for admission. Since the marginal increase in the use of existing infrastructure will degrade its value to current users, the new entrant must reimburse the existing “owners” for the privilege of using existing facilities.

It is assumed that these tools will be disincentives to land development except for those willing to pay the additional burden. This is not a punitive approach to taxation, but rather a means of assuring that the city is fairly compensated for the true economic costs of development by a certain class of users.

Examples of Finance Allocation Tools Which Increase Development

- ? long term debt for public infrastructure including non-revenue generating facilities
- ? stand-by fund to capitalize on development opportunities
- ? case reserve ceilings for public enterprise reinvestment standards;
- ? short-term loans for special assessments

Sometimes spending money — in specified ways — can have the effect of creating more revenue (or more assets such as infrastructure) in the long term. One of the best ways of responding to dynamic growth opportunities is to spread the cost of providing supporting infrastructure over a future time period so that the current cost impacts on existing taxpayers are minimized while the current economic benefits are maximized. Allocating long term debt, therefore, is a very important financial incentive which should be used extensively PROVIDED that other tools are also employed to recover sufficient revenue for debt service payments. Failure to meet revenue targets will have a direct negative effect on a city’s ability to continue to grow since debt service payments can not be deferred. Improved tax collections must go hand-in-hand with higher levels of debt.

Since special assessments could be an important revenue raising incentive for the city, it should also provide for a means of facilitating the payment of the assessment by affected taxpayers. Short term loans (five years) to finance the special assessment may need to be offered as a way of lessening the direct impact on individuals. Debt, once again, is an effective positive policy instrument/incentive for allocating the costs of development.

Examples of Finance Allocation Tools Which Limit Development

- ? development funds rationing
- ? investment reductions in favor of maintenance

In some locations the city may want to sustain a certain level and quality of development but not encourage or support new growth. This can be accomplished through a development strategy which emphasizes maintenance of existing facilities and small incremental investments rather than the provision of any infrastructure which could spur new development.

These disincentives will limit growth provided that other land development policies and fiscal procedures work in concert with them to produce a coherent strategy. For example, the acquisition of available land for parks and open space should perhaps be combined with these financial disincentives to reinforce the main land development objectives.

Example of Core and Working Group.....

Outline of a Strategic.....

Figure 13: Land Management Tools

Annex 5: ***Gmina* Land Purchase and Sale Program⁸**

Jerry Erbach

1 Program Description and Objectives

A City Development Strategy approved by city council resolution on December 5, 1995 cited housing development as one of the city's most urgent priorities.

The availability of serviced residential land for housing development is the very first requirement for increasing housing production by all types of developers. Affordable, serviced plots are particularly important to the growing number of individual households who want to build their own home.

The city currently owns about 10,000 communal units or about 20 percent of the total housing stock. The demands for new housing to meet the needs of new households and to replace substandard units are likely to increase substantially in the near future as market forces come into play, household incomes rise, and people's housing aspirations change.

The city's housing policy cites the need for about 900 new housing units to be built each year until the year 2015. This level of production is considered necessary to respond to newly emerging housing needs and to eliminate the current "deficit" due to poor housing conditions. The housing policy has set a target of approximately 500 units to be built per year during the 1996-2000 period.

The availability of serviced land affordable to a wide range of households is one of the very first requirements to meeting the city's housing objectives. All of these housing sites should have access to basic infrastructure and municipal services. The Housing Strategy estimated that roughly 90,000 square meters (nine hectares) of new residential land will need to be developed each year for the next four years. This annual requirement can be broken down by type of housing developer, as shown in the following table.

⁸ This analysis was prepared by Jerry Erbach (PADCO) at the request of the request of Gmina Bielsko Biala, with funding by USAID.

Demand for Serviced Land by Type of Construction per Year

Type of construction	# of hectares
Cooperative housing (single- and multi-family units)	0.75
Private sector housing (mainly single-family houses)	6.5
Communal housing (multi-family units)	1.0
TBS rental housing	0.35
TBS housing under the revolving fund	0.4

This component of the city's 1997-2000 non-budgetary Housing Investment Program involves the strategic purchase and sale of land by the city. Successful implementation of this component will contribute to the establishment of a flexible, consumer-oriented approach to land management that is based on rapid and transparent administrative processes and will lead to the orderly and integrated development of residential land markets throughout the city. The purchase and sale of land by the city will focus on activating local land markets, increasing efficiency and equity in the provision of affordable land for housing to all income groups, and targeting specific land resources directly to low- and moderate-income households.

The basic objectives of this program will be to:

- ? outline an action investment plan for land acquisition and sale to be included in the city's Housing Investment Program for the next four years;
- ? establish a sustainable land acquisition and development strategy for the city based on optimizing the use of available resources and opportunities;
- ? stimulate the provision of land for residential development to benefit all income groups;
- ? strengthen local institutional capacities to implement a sustainable land management and development approach;
- ? leverage city resources to mobilize private sector investment in the provision of serviced land and housing for low and moderate income groups;
- ? establish public-private sector partnerships that will reduce delays, risks, and costs to private sector housing producers and provide greater opportunities for the city to achieve its housing objectives;
- ? provide small-sized plots for low- and moderate-income households wishing to build affordable housing units using simple, traditional building technologies; and
- ? provide land for apartment buildings to be financed through the TBS program.

2 Program Implementation

The proposed program will have three major components: 1) the purchase of unserviced, residential land, 2) the sale of serviced land, and 3) the implementation of public-private sector partnerships for the development of residential land.

The amounts of funds earmarked for land purchase by the city under this program have been set at PLN 500,000 for 1997 and PLN 300,000 for 1998. The sale of centrally located, city-owned sites at market prices will generate revenues that will enable the city to establish a revolving fund for residential land purchase and servicing that will support the implementation of its recently adopted housing policies.

Two basic approaches to the city's purchase of unserviced land are envisaged under this program. They include the purchase of unserviced, residential land that has been reclaimed by private owners who now want to sell the land back to the city at below-market prices and the purchase of low-cost but suitably located land for residential development to benefit low- and moderate-income families.

Three different approaches are envisaged for the sale of city land: the sale of centrally located, infill sites at maximum prices; the wholesaling of large, partially serviced plots to various types of housing developers; and the sale of small-sized plots to individual households for owner-builder construction. An example of a project involving the sale of small-sized plots is shown in the following table.

Placeholder for Table 1

The third land management component of this program involves the development and implementation of various forms of public-private sector partnerships and land re-parcellation. The implementation of public-private sector partnerships will increase the city's ability to act as a catalyst in promoting desired residential development. Partnership arrangements will need to be determined by the city and participating landowners through negotiations. Various forms of partnership could be pursued that might include:

- ? requiring landowners to pay the actual costs of infrastructure provided to their sites once these areas have been subdivided and are in the process of being sold; and
- ? implementing a traditional re-parcellation approach that determines the value of unserved land at the time of partnership, multiplies this value by the size of existing parcels to establish a total "credit" for each landowner, and then divides this credit by the value of the serviced land to determine the amount of re-subdivided land to which the landowner would be entitled; the city would then be able to sell the remainder of the land to help pay for the cost of infrastructure.

The various forms of partnership arrangements should be formulated to encourage broad private sector participation, reduce risks and costs to the different parties, and allow land markets to operate in a freer manner. Joint development can be an effective mechanism for the city to induce the private sector to implement its land development goals without having to expend a large amount of its own limited capital.

3 Implementation Responsibilities

The city should establish an informal Land Working Group to oversee and monitor the implementation of this program and the general effectiveness of the city's evolving approach to residential land management. This working group should be directed by the city's first vice-mayor and include permanent representatives from the Land Development Department, Urban Management Department, and Economic Policy Department. Sub-units within each of these major departments will have specific responsibilities related to the management and development of residential land and to the land purchase and sale program. The City Development Office, the Road Management Department, and the utility companies for water and wastewater and heating distribution will participate in the working group through their existing relationships with the three main departments in the working group.

The Land Working Group should meet at least once every quarter to discuss the status of the city's land management program and to prepare necessary documentation for the Executive Committee and/or City Council. Group meetings will also provide a means to maintain close communication and coordination among all parties involved in the program, without having to make any major changes in the city's administrative organization.

4 Anticipated Time Frame

This land purchase, servicing, and sale program should be designed to be financially sustainable and partly self-financing over the next four years. Program implementation will consist of the following.

- ? The sale of the centrally located, Michalowicsa site should take place as early in the program as possible. The revenue from the sale of this site is needed to reduce the level of borrowing during the first two years of the program, when projects are just getting under way.
- ? The purchase of a significant amount of land within the Kamienica site should be completed within the first two years of the program. The *gmina* should also develop a partnership approach to include those landowners in the area who want to keep their land but are willing to work with the city in developing the area.
- ? The auction of developer-oriented sites in Kamienica should begin in the second year of the program. Some of these sites could be auctioned prior to the installation of infrastructure in order to confirm that land sales will in fact cover the cost of infrastructure and land purchases.
- ? The purchase of a three-hectare site for the development of low-cost plots should be completed within the first 18 months of the program. The servicing and marketing of this site should be implemented at the same time. Advance payments from plot purchasers will help to improve the cash flow for this activity and for the overall program.
- ? The purchase of land in the Wapienica site should be completed by end of the third year of the program.
- ? Roughly one-half of the infrastructure required for the selected sites should be in place by the end of the third year of the program. All of the infrastructure should be completed by the end of the fourth.

5 Anticipated Social and Economic Benefits

A number of benefits can be expected from the successful implementation of the land purchase and sale program.

Positive social impacts would include the following:

- ? creation of viable neighborhoods;
- ? increase in the social value of private property;
- ? greater satisfaction with housing and neighborhood conditions;
- ? greater pride and participation in the community; and
- ? greater reliance on negotiation and democratic processes in city development.

Positive economic impacts would include the following:

- ? increase in private property values;
- ? increase in long-term city revenues from property related fees and taxes;
- ? creation of employment opportunities in small-scale construction; and
- ? creation of new small-scale enterprises and commercial activity.

The second Table shows the program's economic multiplier effects on private sector housing investment and employment. Based on a ratio between built area and land of 0.6, an average cost of

construction of PLN 1000 per square meter, a 14 percent share of construction costs for labor, and an average worker's salary of PLN 600 per month, the results show:

- ? a total private sector investment of PLN 111,806,000 for the construction of housing on land developed by the program; and
- ? a total of 2,174 person-years of work (or 545 jobs over the four-year period) generated by this construction; this result does not include jobs related to the provision of infrastructure that would add significantly to the number person-years of work and jobs created by the program.

6 Financial Feasibility

The financial feasibility analysis assumes that all available land within the first three sites will be developed and sold by the end of the fourth year. This perspective is largely due to the fact that the period of analysis has been limited to the first four years of the program. In reality, additional land will be bought, serviced, and sold as part of an ongoing process.

A relatively simple and straightforward analysis has been developed to review the financial feasibility of the combined programs for land purchase/sale and infrastructure. The two programs are analyzed together because: 1) the provision of residential infrastructure has a significant impact on the market value and sales price of the land and 2) the sale of land at market prices will provide the major mechanism for the recovery of infrastructure costs. The analysis covers the four-year period from 1997 through 2000.

Financial resources for the combined programs include funds from the loan, revenues from the sale of selected, city-owned infill plots, and revenues from the sale of serviced residential land developed through the program. Long-term city revenues from taxes, utility payments, and other fees and charges have not been considered in the analysis at this time. Program expenditures in the analysis include the costs of buying unserviced land, the costs of providing infrastructure, and the city's repayment of the loan. Barring any major delay or difficulty, it should be possible to achieve the results indicated in the spreadsheet on page 34.

Funds from the line of credit to be used for land purchase and infrastructure development have been defined in the Housing Investment Program. Revenues from residential land sales could also be used to finance additional land purchase and infrastructure to the extent that these funds become available and are not used to repay the credit line. Loan repayments have been calculated to cover the amount of loan funds used for the two programs. Additional program costs will include marketing and transaction costs (e.g. surveys, bids, competitions, etc.), staff, and logistic support. These indirect costs are assumed to be financed through the city budget.

The accompanying Table presents a simple feasibility analysis of the combined land purchase and infrastructure programs. It outlines a basic scenario for program implementation and its cash flow that should ensure the program's financial feasibility. The yearly indications for land purchase, infrastructure provision, and sale of land should be viewed as specific targets to be achieved to maintain this feasibility.

Financial resources that are used to initiate the land purchase program include:

- ? an injection of PLN 2,800,000 from the loan for both land purchase and infrastructure; and
- ? an estimated PLN 448,000 from the sale of two centrally located, city-owned sites at market prices.

Placeholder for Table 2

The sale of city-bought and -serviced residential land, both as large parcels auctioned to developers and as small-sized plots offered to individual households, is expected to generate an additional PLN 12,480,000 based on current land prices in the areas of program activity. The combined total for resources and revenues related to the program is expected to be PLN 15,728,000.

Expenditures under the proposed scenario will include the purchase and servicing of land within well-defined areas in Wapienica and Kamienica, the purchase and servicing of a three-hectare low-cost site in the northern part of the city, and repayment of loan funds related to land purchase and infrastructure. Total land purchase costs for all three sites are estimated to be around PLN 2,320,000, while infrastructure costs for the same sites are estimated to be around PLN 9,000,000. These infrastructure costs do not include the servicing of fully owned private land within the proposed sites. The repayment of loan funds (both interest and all of the principal) related to this part of the program will be around PLN 3,660,000 for the four-year period.

The cash flow for the project shown on page 34 has been designed to take advantage of the anticipated interest rate decreases over the next four years. Both interest and full amount of principal will be paid at the end of each year. A new borrowing will be made at the beginning of the subsequent year for any deficit and the scheduled amount. While this approach may increase some of the transaction costs, the essential act of “refinancing” the loan on an annual basis will reduce the amount of interest to be paid and increase the surplus or amount of “profit” at the end of the four-year period.

The potential rate of return for the combined program is 51 percent (see the first table).

The combined land purchase and infrastructure program will generate a small profit of some PLN 748,000 over the first four years of the program. This profit would normally be used to purchase additional land. It is 6 percent of the total sales and 167 percent of the city’s equity in the program, which is taken to be the revenues from the sale of the two infill properties.

The financial internal rate of return has been calculated for the purchase/servicing/sale of residential land under the program. The cash flow used in this analysis does not include loan funds or repayments or the city’s equity contribution to the program. A rate of return of 51 percent is obtained.

7 Program Risks

There are several major risks that could jeopardize the success of this program. The most obvious risk is that the city will not be able to purchase, service, and sell the land as planned, either in terms of the amount of land that can be developed and sold or in the timing of these sales. Private land owners may not be willing to sell their land to the city or may not be interested in participating with the city in any form of joint land development. The lack of participation by private landowners could effectively block the development and sale of adjacent, city-owned land. There is also the risk that new or additional claims will be made on land that currently belongs to the city or is in the process of being purchased.

The very limited understanding of market-driven housing demand is another potential risk to the program. Many people, in fact, are still waiting to obtain a subsidized housing unit from the *gmina*. The relatively small size of the city's housing market encourages a high degree of caution in initiating new developments. All major housing providers can suffer serious financial losses if they miscalculate the housing market and/or the demand for different types of units. The result may be an initial lack of developer interest or capacity to purchase blocks of land and/or implement the program according to the proposed timetable.

The general lack of experience during project implementation presents another form of risk for private developers who cannot afford major cost overruns due to unexpected delays in the approval process, dramatic changes in the price of building materials, and so on.